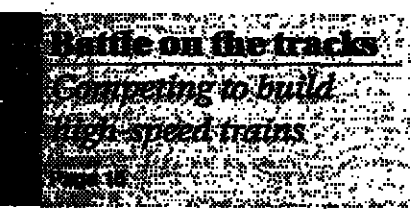


Battle on the tracks
Competing to build high-speed trains

Artificial worlds
Virtual reality as an aid to design
Technology, Page 12

Today's surveys
China Section III
Swiss banking Section IV

FINANCIAL TIMES

Europe's Business Newspaper

THURSDAY NOVEMBER 18 1993 D8523A

Belgian austerity plan prompts falls in interest rates

The Belgian government agreed after 16 hours of talks to a wide-ranging austerity pact which will curb social spending and limit wage increases to the rate of the inflation until the end of 1996. The pact also contains fresh measures to tackle rising unemployment. It led to a cut in two leading interest rates and prompted a buoyant response in Belgium's financial markets. Page 16

Strong showing by US housing market: A strong recovery is under way in the US housing market with starts up 14 per cent in the year to October after mortgage rates this year declined to their lowest level in two decades. Page 5

Immunity vote goes against Tapie: Businessman and former French urban affairs minister Bernard Tapie (left) was brought a step nearer investigation for alleged fraud after a National Assembly committee recommended the lifting of his parliamentary immunity. The vote follows a request by a state prosecutor investigating alleged embezzlement at Testut, a maker of scales and part of the holding company Bernard Tapie Finance. The full assembly will decide on the recommendation.

UN seeks Bosnian convoys pledge: The United Nations is to seek firm guarantees today from Bosnia's warring factions that its relief convoys will be given safe passage to save hundreds of thousands of people in desperate need of food and shelter. Page 2

Japan's LDP told to oppose reforms: The leadership of Japan's divided opposition Liberal Democratic party urged members to vote today against government plans to clean up the country's political system. Page 6

PLO cash crisis threatens peace process: The financial crisis in the Palestine Liberation Organisation could jeopardise the Israeli-Palestinian peace process, PLO economics chief Ahmed Qurie warned. The PLO has been unable to meet its operating expenses for five months. Page 7

Anti-terror fund launched: Leading institutions in the City of London have helped raise a £1m ($1.48m) fund to reward information on IRA attacks on economic targets. Page 16

Tough US line on China trade: US officials say they are ready to impose trade penalties on China even though President Clinton has adopted a new policy of closer engagement with Beijing. Page 4; Editorial Comment, Page 15; Survey, separate section

Electrolux, Swedish white goods manufacturer, reported a third-quarter profit of SKr198m ($24.5m) after financial items from a SKr22m loss a year earlier, reflecting the benefits of a weaker krona. Page 21

Heathrow link bidders line up: German, French and Japanese companies are among six bidders for the main tunnelling contracts for the £300m rail link between west London and Heathrow airport. Page 10; Next chapter of the railway children, Page 15

Nutricia profits fear: Shares in Nutricia, Dutch-based producer of baby food, fell sharply after the company said a recall of 1m jars of baby food would affect its 1993 profit forecast. Page 17

Nicaragua bows to IMF pressure: Nicaragua, under pressure from the International Monetary Fund, will raise taxes or cut spending, paving the way for official finance to the country. Page 5

Magyar Hitel Bank, Hungary's largest commercial bank, revealed a substantial capital shortfall and said it was discussing a Ft50-Ft60bn ($500m-$600m) government bail-out. Page 17

Senate opposes assault weapons: The US Senate voted to ban semi-automatic assault weapons as part of a bill to fight violent crime.

Hunt for Aideed ends: The UN Security Council voted unanimously to call off the hunt for General Mohammed Farah Aideed, the Somali warlord whose followers were blamed for attacks on international peacekeepers. Page 7

UK hopes of rate cut: A marked fall in UK inflation last month, together with disappointing growth in shop sales, revived hopes that UK interest rates will come down. Page 8

■ STOCK MARKET INDICES		
FT-SE 100:	3,120.0	(+22.5)
Yield	3.8	
FT-SE Eurotrack 100	1,363.56	(+10.27)
FT-A All-Share	1,536.05	(+0.6%)
Nikkei	18,198.71	(-137.41)
New York: lunchtime		
Dow Jones Ind Ave	3,705.46	(-5.31)
S&P Composite	465.26	(-1.48)
■ US LUNCHTIME RATES		
Federal Funds:	2 15/16%	
3-mo Treas Bills: Yld	3.137%	
Long Bond	101¼	
Yield	6.152%	
■ LONDON MONEY		
3-mo Interbank	5 9/16%	(5⅝%)
Liffe long gilt future:	Dec 115 1/32	(Dec 114 13/32)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Jan)	$16.18	(15.85)
■ Gold		
New York Comex	na	(374.6)
London	$372.0	(375.0)

■ STERLING		
New York lunchtime:		
$	1.4805	
London:		
$	1.477	(1.4855)
DM	2.5175	(2.5275)
FFr	8.725	(8.7575)
SFr	2.21	(2.225)
Y	158	(158.25)
£ Index	80.9	(81.3)
■ DOLLAR		
New York lunchtime:		
DM	1.703	
FFr	5.9	
SFr	1.4935	
Y	108.925	
London:		
DM	1.705	(1.702)
FFr	5.9075	(5.895)
SFr	1.497	(1.4985)
Y	107	(106.55)
$ Index	66.5	(66.2)
Tokyo close Y 107.05		

Austria	Sch30	Greece	Dr300	Lux	LFr65	Qatar	QR12.00		
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr60	Hungary	Ft165	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lv25.00	Iceland	IKr215	Neth	Fl 3.75	Slovak Rp	KSL45		
Cyprus	C£1.00	India	Rs40	Nigeria	Naira45	South Africa	R12.00		
Czech Rp	CZK45	Israel	Shk8.50	Norway	NKr18.00	Spain	Pta210		
Denmark	DKr15	Italy	L2700	Oman	OR1.50	Sweden	SKr15		
Egypt	E£4.50	Japan	Y500	Pakistan	Rs35	Switz	SFr3.20		
Finland	FM14	Jordan	JD1.50	Philippines	Peso45	Syria	S£50.00		
France	FFr9.00	Kuwait	Fils 600	Poland	Zl32,000	Tunisia	Din1.250		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Esc215	Turkey	L8000	UAE	Dh11.00

South Africa poised to reach deal on constitution

By Patti Waldmeir in Johannesburg

SOUTH AFRICA was last night on the verge of majority rule as democracy negotiators put the finishing touches to a constitution which will end 350 years of white minority oppression and give blacks the vote for the first time in history.

By late last night, weary negotiators had reached agreement on all but a few points of the historic 158-page constitution, the fruit of years of negotiation. The process was set in train when government ministers met Mr Nelson Mandela, leader of the African National Congress, while he was still serving a 27-year prison term for opposing the racist state.

The constitution, which will remain in force for up to five years, is based on traditional western values which contrast sharply with apartheid, one of the most repressive regimes in history. It guarantees multi-party democracy, equality before the law, fundamental human rights and freedoms, an independent judiciary, and a free press. Mr Matthew Phosa, the ANC's constitutional negotiator, said the 21 parties meeting last night were "digging the grave for apartheid".

Mr Roelf Meyer, the government's chief negotiator, shocked delegates to the negotiating council when he announced that the government had agreed to a very weak form of multiracial power sharing, a capitulation by the ruling National party.

All parties with more than 5 per cent of the vote will be granted a seat in cabinet in a government of national unity, with two deputy presidents to be chosen from the two top parties. The president, who is likely to be Mr Mandela, will be elected by the national assembly. The president will try to take decisions by consensus, but he will have the final say where this is not possible.

But the new constitution has powerful opponents, among them the mainly Zulu Inkatha Freedom party of Chief Mangosuthu Buthelezi and the white right wing, led by retired Army General Constand Viljoen. Together, they form the so-called Freedom Alliance of rightwing parties which poses a substantial threat to the stability of the government which will emerge after elections on April 27 next year.

Mr F.W. de Klerk, the president, has left open the possibility that the Freedom Alliance may ratify the constitution after it has been adopted by the other 21 parties, but this seemed increasingly unlikely.

Concessions were made to the Alliance in last night's debate, including allowing regions to write their own constitutions and requiring a two-thirds majority of the regional house of assembly, the senate, to change the powers of regions. But these did not appear sufficient to bring the Alliance back on board.

With a low level civil war already raging in Natal province between Inkatha and the ANC, and with the right wing heavily armed and well trained, the two could prevent elections altogether unless they are accommodated.

Climbdown seals deal, Page 7
Editorial comment, Page 15
South Africa survey, Pages 29-34

Bundesbank attacks EU over plans for spending

By David Waller in Frankfurt

A SCATHING attack on European Union spending plans is launched today by the Bundesbank, which says they threaten progress towards monetary and political union and will worsen Germany's budget difficulties.

In its monthly report for November, published as members of the central bank's decision-making council meet today in Frankfurt to consider further interest rate cuts, the Bundesbank cautions that the financial disciplines embraced by member states under the Maastricht treaty could be undermined by the EU's spending.

"The effectiveness of individual countries' monetary policy may be restricted through the increased granting of direct credits and subsidised lending at the community level," the Bundesbank says. This would "scarcely be helpful" on the path to economic and monetary union.

Adopting the tone normally reserved for its critique of domestic spending, it says the EU's budgetary behaviour must be in harmony with broader macro-economic and monetary objectives.

The Bundesbank stops short of urging the German government to curb its contribution to the EU budget, but points out that Germany's transfers to the union are set to increase substantially in the context of a projected steep rise in EU spending as whole. Total EU spending on structural measures is set to be Ecu176bn ($201bn) in 1993-99, compared with Ecu67bn in 1988-92.

It predicts that Germany's gross transfer of funds to the union will grow from DM38bn ($22.4bn) currently to DM52bn in the next five years, an average annual growth of 8 per cent – far higher than the intended increase in German government spending as a whole. Net transfers – taking account of the inflow of funds to eastern Germany – will climb from DM22.4bn in 1992 to DM30bn in 1997.

"The increased international demands on the federal republic come at a time when Germany's public sector finances are under considerable pressure as a result of reunification, resulting in a substantial increase in government spending and indebtedness," the Bundesbank says.

Germany's role as largest contributor to EU finances may have been justified before reunification, but the Bundesbank argues: it is questionable now, following reunification. Germany is now, in purchasing power terms only the sixth most prosperous country in the union, having been the second after Luxembourg.

In another part of the report today, the Bundesbank says that economic fundamentals are more important in determining the stability of a currency than institutional arrangements such as the European Monetary System.

Thus the increased flexibility in the European exchange rate mechanism brought about by the move to wider fluctuation bands did not reduce the chances for stable relations between currencies – so long as countries continued to pursue the objective of medium-term economic stability.

Warning on enlargement, Page 2
SPD criticises Frankfurt, Page 3
Belgian rates cut, Page 16

Reuter

Bill Clinton limbers up on the steps of the Capitol Building before yesterday's Nafta debate

Passions flare as Nafta vote draws near

By Jurek Martin in Washington

MOVING with all deliberate speed and flashes of passion, the US House of Representatives yesterday approached its climactic vote on the North American Free Trade Agreement.

At the other end of Pennsylvania Avenue, emotion of a different sort – barely suppressed elation – was evident as the White House totted up the steady stream of new endorsements for Nafta and calculated, though it would not admit it publicly, that it would win.

Mr Mickey Kantor, the trade representative, was among those convinced that the administration's application of maximum political force was on the edge of producing a great victory for President Bill Clinton. Anything bigger than a margin of one

Continued on Page 16

Transatlantic air war flares as UK retaliates against American efforts to undermine BA rights

US flights to Heathrow threatened

By Paul Betts, Aerospace Correspondent, in London

THE TRANSATLANTIC air war flared up again last night with the British government threatening to limit US flights to Heathrow in retaliation against efforts to undermine British Airways' rights in the US.

The UK's tough reaction is expected to revive tensions over transatlantic air services and threatens to complicate the already difficult negotiations on a new "open skies" agreement between the two countries.

The UK is accusing Washington of seeking to curtail BA's rights to offer joint code sharing services with USAir, the sixth largest US carrier, in which BA owns a 24.6 per cent stake.

Code sharing is a growing trend in the airline industry and enables two airlines to use their respective ticketing codes. This enables an airline to offer a service with a single code even if part of the journey is made on the other carrier.

In the case of the BA-USAir partnership, BA operates the transatlantic legs while USAir serves the US domestic sectors.

UK airlines obtained rights to code share with US carriers under the so-called Heathrow Deal negotiated in 1991 which allowed American Airlines and United Airlines into Heathrow, the world's biggest international airport.

The latest row follows an application to the US government by BA in August to expand its code sharing services with USAir. After a three month delay, the US announced last Friday it would only give approval for the new BA code sharing services for the next 60 days instead of the usual 12 months.

Continued on Page 16

Paris urges banks to ease squeeze on small companies

By David Buchan in Paris

MR Edouard Balladur, the French prime minister, yesterday asked banks to ease the credit crunch that has pushed many small companies under. The move reflects concern about the weakness of the country's economic recovery.

In return, Mr Balladur reviewed with leading bankers their demands for a change in the bankruptcy law to give creditors greater security; an extension of government guarantees on bank loans to small and medium-sized companies; and a cut in the tax on bank deposit interest.

The Association of French Banks, which represents about 60 per cent of all banks in France, defended itself against criticism that banks have been squeezing small companies. It said yesterday that its total loans outstanding at September 30 1993 were 2.5 per cent higher than a year earlier. But the association acknowledged that the recession had forced banks to be more cautious in lending to smaller firms, which are more dependent on short-term bank finance than bigger enterprises.

The government is already in the process of meeting several of the banks' demands. A reform of the bankruptcy law, to give creditors greater protection when a company declares itself bankrupt, is to go before the National Assembly next week. Meanwhile, Mr Edmond Alphandéry, the economy minister, said the government intended to cut the tax on all bank deposit interest, from 39 per cent to 19 per cent, in 1995.

The 39 per cent tax rate has encouraged savers to put their money into lower-taxed money market funds rather than deposits which banks can count into their balance sheets.

"Banks must play their part in the recovery," Mr Alphandéry told the National Assembly, adding that "it would be very damaging if a lack of dynamism in our banking sector put a brake on the recovery which could begin in the months to come."

Mr Balladur's caution over interest rate cuts was again evident when he discussed next year's economic prospects with his own RPR party's backbenchers earlier this week.

"In 1994 France should return to a growth rate which is feebly positive," he said, hardly a ringing reaffirmation of his government's official forecast which is still for 1.4 per cent real growth next year. The Bank of France said yesterday that industrial output "dipped slightly" in October.

CONTENTS

Bosnian faction leaders face pressure in Geneva for firm guarantees on the peaceful passage of relief

UN seeks to end attacks on aid convoys

By Robert Mauthner

THE United Nations will today seek firm guarantees from the three warring factions in Bosnia that its humanitarian convoys will be given safe passage over the coming winter to save the lives of hundreds of thousands of people in desperate need of food and shelter.

Ms Sylvana Foa, spokeswoman of the UN High Commissioner for Refugees, described the meeting in Geneva today between the High Commissioner, Mrs Sadako Ogata, and Bosnian political and military leaders as "a last-ditch effort" to ensure that aid would get through.

The lives of as many as 3m people who were beneficiaries of UNHCR aid were at risk as the bitter Bosnian winter has begun to bite with 3 ft(1 metre) snowfalls and temperatures well below freezing point.

"Very soon it's going to be 18 degrees centigrade below zero," Ms Sylvana told diplomatic correspondents in London yesterday. "The average adult in the enclaves has already lost 12 kilos. We are talking about people in a very bad state indeed."

They needed not only food, but building materials to provide adequate shelter in towns and villages where many houses and apartments had been destroyed. One of the biggest needs was for plastic sheeting, nails and plywood to give the minimum protection against the elements, as well as coal for heating.

The aid crisis has been compounded by continuing attacks by the warring factions against UN relief workers and soldiers, in one of which a Danish driver was killed last month. That incident led to the suspension of UN aid supplies for the past three weeks by Mr Boutros Boutros Ghali, the UN secretary-general.

The UNHCR requires firm guarantees that all such attacks cease before resuming its relief convoys.

Mrs Ogata's efforts to get guarantees will be backed up Mr Cornelio Sommaruga, the president of the International Committee of the Red Cross (ICRC), who is also expected to attend the meeting. Lord Owen, one of the two international mediators on the former Yugoslavia, is expected to take the opportunity meet the Bosnian faction leaders individually. However, there is no intention at this stage to convene a joint meeting of the three warring parties for peace negotiations.

■ A Yugoslav war crimes tribunal was yesterday officially inaugurated, to attempt to prosecute perpetrators of murder, rape and enforced expulsions in Europe's bloodiest conflict since the second world war, writes Ronald Van de Krol in The Hague.

The 11 judges of the international tribunal were sworn in at the International Court of Justice for an initial period of four years.

Doubts have already been raised about the effectiveness of the UN-sponsored tribunal because it will not try suspects "in absentia", and because UN troops on the ground have no power to make arrests.

Plan for European security conference soon

THE European Union plans to host a European security conference in the first half of 1994, aimed at settling latent frontier and minority problems in eastern Europe, diplomats in Paris said yesterday, writes David Buchan.

Plans are far advanced for the 12 members of the European Union to use their Brussels summit next month to launch the initiative for a European "stability pact," first broached several months ago by France, the diplomats claimed.

They described the plan as "an exercise in preventive diplomacy," designed to deal with unresolved ethnic and border problems in east European countries that "have a vocation to join the European Union or be very closely associated with it," rather than existing conflicts in the Balkans or the Caucasus.

Invitations to attend the conference would probably go to members of the Conference on European Security and Co-operation, including the US, Canada and Russia, but excluding those in the Caucasus and central Asia.

However, the geographical scope of the "stability pact" would be limited to Poland, Hungary, the Czech Republic, Slovakia, Romania, Bulgaria and the three Baltic republics.

The planned EU initiative would take the form of an opening conference, followed by bilateral negotiations between East European countries on "good neighbourly" accords. Such agreements would form part of the "stability pact" which, if all went well, could be adopted by a winding-up conference in 1995. The final document would be deposited with the CSCE.

The Belgian presidency of the EU had sounded possible participants in the conference and drawn a generally favourable reaction, the diplomats claimed. Hungary was described as being the most enthusiastic about the idea because of the possibility of improving the lot of the large ethnic Hungarian minorities in Romania and Slovakia.

A key doubt had been the possibility of whether Russia would want to deal with the issue of the large ethnic Russian minorities in Estonia, Latvia and Lithuania bilaterally with those new Baltic republics. But President Boris Yeltsin was said to have recently confirmed to Prime Minister Edouard Balladur, who first raised the stability pact idea in April, that Russia would negotiate minority issues in the Baltic region in a multilateral forum.

The stability pact is designed to be on the Twelve's first joint foreign policy initiatives since their Maastricht treaty came into force this month. According to diplomats here, the Twelve hope the prospect of entry into the EU will serve as a political incentive for East European countries first to settle differences among themselves. "But the stability pact is not a strict precondition for East European countries joining the EU", said a diplomat.

Claes warns on talks over EU enlargement

By Andrew Hill in Strasbourg

TALKS ON reforming the decision-making structure of the European Union should not be mixed up with enlargement negotiations, the Belgian presidency of the EU said yesterday.

"You can't do the two [at once]: a choice has to be made," Mr Willy Claes, Belgian foreign minister, told the European Parliament yesterday.

The Union has set itself a tough timetable of finishing negotiations with the four candidate countries – Austria, Finland, Sweden and Norway – by the beginning of March 1994, in the hope that they will be able to join the EU by the beginning of 1995.

But the parliament is concerned that the addition of new member states could hinder EU action, unless substantial reforms are made in sensitive areas such as majority voting by ministers, the number of European commissioners, and the composition of the three-country "troika" which carries out foreign policy missions on behalf of the EU.

Smaller members of the EU have frequently voiced concerns that reforms – particularly of the existing weighted voting system – might simply mean that they are railroaded into decisions by larger countries, which have more votes.

But certain MEPs believe that reform should be tackled as soon as possible, to avoid confusion later.

Mr Jean-Louis Bourlanges, a French conservative MEP, yesterday warned against using the argument that small member states had to be defended as "an excuse for not doing anything."

The parliament last night voted in favour of a resolution calling for institutional changes to "accompany" enlargement, including greater use of an improved system of weighted majority voting. These changes "must be incorporated in the accession treaties," said the resolution.

Mr Claes said he would draw the attention of his fellow foreign ministers to the Parliament's resolution when they meet on December 6 and 7.

In theory, MEPs have the power to block the accession of new EU members but sources close to the enlargement negotiations said yesterday they believed the parliament would be reluctant to hold the accession process to ransom over institutional reform.

Oslo may reach membership compromise on control of energy

Norway's PM optimistic on EU

By David Marsh
European Editor

NORWAY has held out hopes for a compromise on the difficult question of aligning its laws on oil and gas licences with the proposed new European Union energy directive.

Mrs Gro Harlem Brundtland, the Norwegian prime minister, said she was optimistic of negotiating an agreement by next spring on Norwegian membership of the EU.

This would allow the issue to be put to a referendum in Norway next autumn, as part of the proposed accession of Austria, Finland, Norway and Sweden on January 1, 1995.

'We will only join the European Union if we feel we are welcome' – Brundtland

In an interview in London with the Financial Times, she stressed that Norway would join the EU only if the other countries of western Europe adjusted some terms of membership to Norway's special needs.

The EC needed the "political will" to accept that Norway's geographic and economic conditions required adaptation in the fields of fisheries, agriculture and energy.

"We will join only if we feel we are welcome – if other countries see that the scene in Norway is different (from elsewhere in the EU)," she said. Mrs Brundtland's minority Labour government is itself split on the question of membership.

Brundtland: the EU must see Norway's resources as a special case because of geographic and economic conditions *Ashley Ashwood*

About 60 per cent of Norwegians are against participation in the Union, according to recent opinion polls. This makes Norway by far the most sceptical of the four European Free Trade Association (Efta) countries negotiating to join.

A crucial part of the negotiations centres on the question of Norway's control over its oil and gas resources.

Norway has been allowed to take part in EU discussions on a proposed directive to increase competition in the energy sector which would require changes in the country's present laws on oil and gas field licences. However, it has been unhappy about proposals under which Statoil, the national oil company, would no longer have an automatic right to 50 per cent participation in exploration of oil and gas fields. Additionally, the EU wants Statoil to give up its role managing the state's financial participation in the country's energy resources.

Mrs Brundtland said, however, that a compromise was possible here.

"If we open for Statoil to be put in an equal situation as far as licences are concerned, then that could be acceptable if we could keep the logical situation that Statoil manages the present state participation. We are looking to see if we can find solutions."

NEWS IN BRIEF

French MPs rule against Tapie

A FRENCH parliamentary committee yesterday recommended that the national assembly waive the immunity of Mr Bernard Tapie, the embattled businessman and former minister, to answer allegations of fraud, writes David Buchan in Paris.

The full assembly is expected to decide next week whether to follow the committee's recommendation and allow Mr Tapie, who won election as a left-wing deputy in the Marseilles area last March, to be investigated for alleged irregularities in campaign finance and in the diversion of corporate funds of a company called Testut to Bernard Tapie Finance SA and to Olympique-Marseille, Mr Tapie's football team.

Mr Tapie faces a second request to have his parliamentary immunity lifted over the investigation of alleged bribery of Olympique-Marseille's football opponents. That request will, however, have to be handled by a separate parliamentary inquiry.

Paris plea over unpaid phone bills

France's Senate yesterday called on government ministries to settle unpaid telephone bills totalling more than FFr2bn ($332m), Reuter reports from Paris.

The upper house passed an amendment to the 1994 budget calling on ministries to pay off arrears to help the debt-burdened state phone company, France Telecom.

It said that the biggest culprit was the Interior Ministry, but even the Telecommunications Ministry itself owed money for phone calls.

Romanian optimism on IMF loan

Mr Mircea Cosea, Romania's deputy prime minister in charge of economic reform, said yesterday a breakthrough had been made in talks with the International Monetary Fund for a new standby arrangement, writes Virginia Marsh in Bucharest.

Mr Cosea, who returned to Romania yesterday after 18 days of talks in Washington, said he expected a letter of intent would be signed after an IMF visit to Bucharest at the end of this month. Romania has received no credits from the IMF this year after failing to meet its final performance criteria under a 1992 arrangement and due to disagreements with the fund over terms for a new accord.

The sticking point in negotiations has been the Romanian government's unwillingness to liberalise the foreign exchange regime.

The black market rate for the leu is around 40 per cent lower than at official currency auctions. Local bankers estimate that the daily official auction accounts for only around 10 per cent of hard currency transactions.

Brussels begins social policy talks

The European Commission yesterday launched a four-month consultation process aimed at inspiring far-reaching reforms of social policy in the European Union, writes Andrew Hill in Strasbourg.

Mr Padraig Flynn, the social affairs commissioner, said the aim was to find ways of reforming the policy against a background of economic difficulties. "We need continuous economic growth, and we need to have more flexibility and competitiveness. But economic growth must go hand in hand with social progress," he said.

The Commission yesterday published a green paper on the options for social policy and invited ideas or suggestions before the end of March 1994. Brussels hopes to produce concrete proposals for action in the second half of next year.

Poland makes pledge on reforms

Poland's new left-of-centre government has told the IMF it intends to continue with free market reforms to achieve financial stability, writes Christopher Bobinski in Warsaw.

"I'm encouraged by what I've heard," Mr Richard Erb, IMF deputy director, said yesterday after two days of talks with senior officials. Mr Erb is the most senior western financial official to visit Poland since the election two months ago won by the former communist Left Democratic Alliance (SLD) and the Polish Peasant Party (PSL).

Mr Erb warned that "it is important to continue with a strong budget policy and there is a need for further progress on lowering inflation". So far this year prices have risen by an average of 35 per cent.

Mr Erb was speaking after the government had said that the budget deficit next year would reach no more than 5 per cent of GDP, with inflation expected to reach 26 per cent.

Armenia to issue its own currency

Armenia, one of the smallest and poorest of the 12 members of the Commonwealth of Independent States, says it will issue its own currency, the dram, leaving Belarus and Tajikistan as the only republics committed to keeping the Russian rouble as their own currency, writes Leyla Boulton from Moscow. Armenia will receive financial support from the IMF for the switch.

Telecoms groups to step up outsourcing

By Andrew Adonis

THE BID by European telecommunications operators to develop a large-scale business from "outsourcing" the telecoms needs of multinational companies intensified this week with the European Commission's clearance of a joint venture to service the international financial services market.

The Financial Network Association, a joint venture company between twelve national public telecommunications operators, six of them European, was cleared by the Commission on condition that its services were not cross-subsidised by revenue from monopoly operations.

The FNA is the latest of a succession of joint ventures in the last two years intended to tap the international outsourcing market. Europe now has at least four alliances targeted at the market, with AT&T, the US giant, set to launch its "Worldsource" outsourcing venture in Europe next year.

The European participants in FNA are Mercury, the UK subsidiary of Cable & Wireless, Deutsche Telekom, France Telecom, Belgacom of Belgium, Telefonica of Spain and Italcable of Italy. Other members include MCI, the second largest US long distance carrier, KDD of Japan and Telstra of Australia.

The company will be offering specialised international network services to the financial sector, in particular high-capacity networks for the conveyance of data and image.

Mr David Bland, FNA's general manager, said: "We will be providing connectivity, and a seamless service, to a market under-provided for at the moment." The alliance will be offering "managed bandwidth" for services largely designed by the users.

The FNA faces strong competition not only from other outsourcing ventures, but also from Swift, the body jointly owned by international banks to manage their major network functions.

The FNA reflects the growing complexity of international telecommunications alliances. All of its members also belong to others alliances, some of which are competing with fellow members.

MCI, the US long-distance carrier, formed a joint venture this summer with BT, with whom Mercury competes in the UK; while Mercury's parent, Cable & Wireless, has a 24.5 per cent stake in Optus, the main competitor to Telstra in Australia.

"Technology transfer is a very complex issue – the agreements run to nearly 100 pages," says Mr Bland, who is also an MCI executive.

The size of the outsourcing market is unclear. Financial institutions are among the highest corporate spenders on telecoms, but they have sophisticated networks and managers of their own.

Mr Ian Moore, director of the financial services group of the UK Telecommunications Managers' Association, said: "I don't believe there is going to be much of an outsourcing requirement. For truly international institutions, telecommunications are strategic; for the rest, their international requirements are minimal."

Mr Bland said FNA had received expressions of interest from "several very large companies," but declined to name them.

DANISH LOCAL ELECTIONS

Coalition parties take a beating

By Hugh Carnegy and Hilary Barnes in Copenhagen

DENMARK'S coalition government parties have taken a beating in local government elections, which showed a surge in support for the opposition Liberal Party, headed by former foreign minister, Mr Uffe Ellemann-Jensen.

The Liberals won 27.1 per cent of the vote against 15.8 per cent in the last election to the Folketing (parliament) and 17.8 per cent in the 1989 county council vote.

The results are a pointer to the general election due before the end of 1994 in which the Liberals are set to lead the opposition challenge to the Social Democratic-led coalition, headed by Prime Minister Poul Nyrup Rasmussen.

Mr Rasmussen said yesterday he was satisfied with the result, which "shows that people are beginning to see the results of the government's policies."

Liberals are set to lead the opposition challenge

The Social Democrats won 34.4 per cent in the county council elections compared with 37.4 per cent in the 1991 Folketing elections and 35.4 per cent in the 1989 local government vote.

But results for two of the small centre parties in the present four-party coalition were disastrous. The Centre Democrats won 1 per cent compared with 5 per cent in the 1991 Folketing election; the Christian People's Party went down to 1.6 per cent from 2.3 per cent.

The Centre Democrats would lose all their nine seats and the Christians their four seats in the present Folketing if Tuesday's result were repeated in next year's election. The fourth coalition party, the Radical Liberals, did better, scoring 3.9 per cent compared with 3.5 per cent in 1991.

The Conservatives, aiming to form a coalition with the Liberals after the next parliamentary election, went down to 12.8 per cent from 16.0 per cent in 1991 and the right-wing populist Progress Party scored 5.1 per cent, down from 6.4 per cent in 1991.

On the far left, the Socialist People's Party scored 9.1 per cent, up from 8.3 per cent in 1991.

The Social Democrats have led the coalition since January when Mr Poul Schlüter, who was conservative prime minister since 1982, resigned.

Mr Ellemann-Jensen said yesterday the signal from the local elections was that "the voters found it unreasonable to switch governments without a parliamentary election."

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481, Telex 416193. Represented by Edward Hugo, Managing Director. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.

FRANCE
Publishing Director: J. Rolley, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

DENMARK
Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 CopenhagenK. Telephone 33 13 44 41. Fax 33 93 53 35.

SPD says Frankfurt caused jobs crisis

By Quentin Peel in Wiesbaden

LEADERS of Germany's opposition Social Democrats (SPD) yesterday stepped up their criticism of the monetary policy of the Bundesbank, accusing it of causing "hundreds of thousands" of job losses in German industry.

At the annual conference of the SPD, they called for a "more appropriate external value" of the D-Mark to promote jobs, but denied that they were seeking an outright devaluation of the national currency.

At the same time they warned of the need for "massive cuts" in public sector consumption in the medium term, in order to bring the country's ballooning national debt under control.

And they gave strong support to plans for a Europe-wide strategy on economic growth and job creation, calling for the proposals drawn up by Mr Jacques Delors, president of the European Commission, to be strengthened and extended.

Mr Oskar Lafontaine, deputy leader of the SPD and party spokesman on the economy, rounded on the Bundesbank in a statement of party strategy on job creation, intended as the basis of the next year's election platform. He said the high interest rates imposed by the central bank had made the D-Mark too strong.

"We should not always believe in the absolute wisdom of the Bundesbank," he told the party conference in the spa town of Wiesbaden. "It was a great mistake to have raised interest rates once again, at the beginning of the recession. That has cost us hundreds of thousands of jobs, because exports have collapsed."

He said that the effective revaluation of the D-Mark against other European currencies by some 10 per cent had the same effect on German export prices as a wage increase of 33 per cent.

His extraordinary attack, in a country where the actions of the central bank are usually regarded as beyond criticism, was immediately backed by Mr Rudolf Scharping, the SPD party leader.

"It hits the nail on the head, especially in the European context," he said. "When I see how we have damaged the French economy with our high interest rates, I must say that was not clever. That was a policy focused on our own national navel, paying attention only to our own domestic conditions." Mr Scharping denied that the party was calling for a devaluation of the D-Mark, in a resolution seeking "lower interest rates and a more appropriate external value of the D-Mark.

Mr Lafontaine warned the party that it would have to take drastic action to control public expenditure if it wins the elections next October, by seeking to shift spending from consumption to job-creating investment. He stressed that the party intends to keep the growth in public spending below the nominal growth of the gross domestic product, in a long-term strategy to cut the national debt.

Naples to name successor to the mob

Robert Graham reports on a vote that will determine who will replace the disgraced former city bosses

Municipal Elections

STREET sellers in Naples have given the ultimate accolade to Antonio Di Pietro, Italy's best known anti-corruption magistrate. As the traditional nativity figures come on the market for Christmas cribs; his effigy has been included alongside the wise men and shepherds.

When Mr Di Pietro visited the Naples magistrature this week the throng of well-wishers was so large he was obliged to leave through a side entrance. The man he came to interrogate, Mr Francesco Di Lorenzo, a former Liberal health minister and one of the city's former political bosses, also had to leave by a side entrance – to avoid a hostile crowd.

The law has suddenly become a hero in this city with a reputation for cheerful anarchy and honouring the law merely in the breach. In less than 12 months a once impregnable political clique of mainly Christian Democrat and Socialist politicians has been discredited and humbled by revelations of bribe taking on a scale unparalleled elsewhere in Italy. Mr Di Lorenzo this week was even offering to hand back L4bn (£1.6m) taken in bribes.

But if the traditional political bosses have been forced to the sidelines and face jail, no clear successor has emerged to run this chaotic sprawling metropolis, which is due to host the summit next July of the Group of Seven leading industrial nations. The big test comes this weekend when Naples' 960,000 voters, along with nearly a quarter of the Italian electorate, go to the polls to elect a new municipal administration.

Opinion polls suggest that the four parties long associated with governing Naples – Christian Democrats, Socialists, Liberals and Social Democrats – can scarcely muster 20 per cent of the vote against 60 per cent bought with political patronage in previous elections. Their candidate for mayor, Mr Massimo Caprara, a former communist and elder statesman, is trailing fourth.

The contest has narrowed down to Ms Alessandra Mussolini, grand-daughter of Il Duce, who is running for mayor on the neo-fascist MSI ticket, and the veteran former communist, Mr Antonio Bassolino, the mayoral candidate of the Party of the Democratic Left (PDS).

Ms Mussolini, elected as a Naples deputy in April, is marginally ahead in the polls. Her campaign of photogenic smiles and bold talk of rediscovering the "real Naples" has little to do with her success. She is a political lightweight riding on the back of nostalgic evocations of the Mussolini name and her film star aunt Sophia Loren's close identification with Naples. She has benefited from the MSI's strong local roots and the party's distance from the various corruption scandals that have seen 60 of the 80 previous local councillors implicated. Ms Mussolini has also picked up support switched from the old ruling parties. The police meanwhile believe the vote controlled by organised crime, estimated to number 80,000, will swing behind Ms Mussolini.

Associated Press

Alessandra Mussolini: neo-fascist candidate for mayor of Naples

The PDS, backed by a leftist alliance, is campaigning hard on promises to restore the rule of law and make Naples work. "From the traffic to industrial production, from the schools to the municipal apparatus, Naples today is on the edge of collapse .... In all these areas the mayor has to and can do something," says Mr Bassolino of his programme 'My Naples'.

In the partial municipal elections of last June, PDS-backed administrations won eight out of 10 municipalities in the Naples area, long dominated by Christian Democrats. In Naples itself, PDS supporters hope enough voters will recognise the city's problems are so dramatic that a Mussolini vote would only make them worse.

Naples has been under special administration since the council was dissolved in July and the city declared bankrupt. The 1993 budget had been drawn up with creative accounting that grossly overestimated sales of municipal property and tax collection while under-estimating expenses. The main municipal services are in chronic deficit, and all the parties are promising varying forms of privatisation.

Mr Bassolino has produced a brave 100-day action plan to end years of deliberate municipal neglect in the water supplies, traffic control, accountancy standards, supervision of contracts and building licences and schooling. Naples has school truancy rates as high as 40 per cent in some areas, which both influences, and is influenced by, the high instance of juvenile crime.

A combination of low productivity, political patronage, the presence of organised crime and poor infrastructure have long frightened away investment.

Recession has made matters worse as have cuts in central government transfers. As a result Naples has 350,000 unemployed, close to 30 per cent of the workforce. The sole element that thrives is the contraband and drugs trade which remain tolerated in part because of the income generated.

Against this background, Sunday's vote will mark either the beginning of an attempt to revive the fortunes of Naples or a further stage in its decline.

Lombard League MP quits over probe

By Robert Graham in Rome

MR Giuseppe Leoni, one of the most prominent parliamentarians in the populist Lombard League, resigned yesterday.

Mr Leoni has been under investigation since last week for allegedly failing to declare L10m (£4,000) worth of campaign contributions to fight his seat in the northern city of Varese. He announced his resignation yesterday to clear his name, although he had been urged to remain by Mr Umberto Bossi, the League leader. Mr Leoni was one of the founders of the League, along with Mr Bossi. The sum of money involved is the smallest known to have been investigated by magistrates in the corruption scandal.

The League is convinced the move is part of a campaign to paint the party in the same colours as the rest of the political establishment, which has been discredited by the scandals. Almost the entire media, as well as the main parties, are on the offensive against Mr Bossi and the League, claiming the party risks forcing the break-up of Italy.

Brussels approves Ekostahl sale plan

By Andrew Hill in Strasbourg

THE European Commission yesterday set the scene for today's crucial ministerial meeting on restructuring the west European steel industry by approving amended plans for the sale of Ekostahl, the state-owned east German steelmaker.

The Commission also attached strict safeguard clauses to the plan to dispel private steelmakers' fears about distortion of the market.

Riva, the private Italian steelmaker, is to buy 60 per cent of Ekostahl from the Treuhand privatisation agency, and build a new mill with a capacity of 900,000 tonnes. But Riva has now also pledged to close one of its own east German mills, cutting capacity by a further 320,000 tonnes by mid-1994. State subsidies to Ekostahl will be reduced from DM883m (£350m) to DM813m.

The Commission said it was now up to EU industry ministers, meeting in Brussels today, to tackle the steel crisis by unanimously approving plans for restructuring east German, Spanish, Italian and Portuguese state steel producers. Only the Italian government has failed to agree with the Commission on an acceptable balance between state aid and closures.

Officials are sceptical about the chances of a breakthrough today, but if the Commission's proposals are implemented the EU's state-owned steelmakers will have to cut capacity by a total of 5.5m tonnes, and will be allowed to receive Ecu6.8bn (£5.18bn) of subsidies in return.

Talks on Irish wage pact falter

By Tim Coone in Dublin

IRELAND faces the prospect of a wages free-for-all following the breakdown of talks yesterday between the government and the Irish Congress of Trade Unions (ICTU) over a new centralised pay bargaining agreement.

ICTU yesterday notified its affiliated unions to prepare for a return to free collective bargaining, having failed in its attempts to persuade the government to remove an unpopular 1 per cent income levy over the next two budgets.

For the past six years, public and private sector pay rises have been regulated through tripartite agreements between the government, employers' organisations and ICTU, the latter representing the bulk of organised labour in the country. The first agreement, known as the Programme for National Recovery, ran from 1987-1990 and the second, known as the Programme for Economic and Social Progress (PESP), ran from 1991 and expires at the end of this year.

The two agreements have been largely responsible for the economic stability in Ireland over the past six years, peace on the industrial relations front, and the achievement of one of the best economic growth rates and one of the lowest inflation rates throughout the European Union.

Mr Bertie Ahern, the finance minister, introduced the 1 per cent income levy in last January's budget to help meet pay deals in the public sector and raise funds for a job creation programme. Its critics have argued that the levy amounts to a 2 per cent increase in the basic income tax rate, in that it is calculated as a 1 per cent of the whole income, without any allowances.

Mr Peter Cassells, the general secretary of ICTU said the levy "struck at the heart of the PESP, acting as a clawback of pay deals that had already been settled and so our members have lost confidence in the process".

The levy is worth some I£145m (£138m) per year to the Exchequer, and Mr Ahern has said that even if the levy were to be removed, in time, it would have to be balanced by tax increases elsewhere. Mr Ahern said earlier this week that "the government is anxious to enter into a new agreement, but not at any price".

Public sector pay has risen by 46 per cent since 1987, while inflation has risen by only around 15 per cent.

Clinton and Jiang meet tomorrow at Apec talks

US waves stick at China

By Alexander Nicoll and George Graham in Seattle

US officials insist they are ready to impose trade penalties on China even though President Bill Clinton has adopted a new policy of closer engagement with Beijing.

Mr Charlene Barshefsky, deputy US trade representative, listed three areas of trade negotiations in which the US expected China to take action in the near future: market access, textiles, and intellectual property rights.

These issues and China's growing trade surplus with the US were due to be raised yesterday by Mr Warren Christopher, US secretary of state, with Mr Qian Qichen, China's foreign minister, as part of a series of bilateral meetings taking place during the annual ministerial meeting in Seattle of the Asia Pacific Economic Co-operation grouping.

Trade issues, as well as human rights and nuclear non-proliferation, are also likely to be raised tomorrow when Mr Clinton meets President Jiang Zemin in Seattle.

A senior administration official said, however, that the Seattle meetings would not be negotiations but an opportunity to explain Mr Clinton's new two-pronged approach to China: that the US recognised China's importance and did not wish it to be isolated, but that serious points of disagreement needed to be addressed.

The official said: "We can either stand outside and lob our concerns over the wall, or we can engage face to face with the Chinese leadership and make clear that we recognise that China is a great country with enormous potential, but that for our relationship to continue to progress there has to be sensitivity on their part to the concerns that we have."

Ms Barshefsky said that on market access, China had agreed last year to reduce import restrictions but its "offers.... have been inadequate". The US would take action after December 31 if its requirements were not met.

On renewal of a bilateral textile accord which also expires December 31, she said recent discussions had been more productive. However, agreement required significant movement by China, and the US was prepared to take unilateral action.

On intellectual property rights, Beijing had enacted a "world class" series of laws "but there is no enforcement", Ms Barshefsky said. "This is a very urgent issue which requires immediate attention by the Chinese," she said, referring in particular to pirating of compact discs.

Associated Press

NAFTA OPPONENTS: Ross Perot (front), the Texas billionaire and Patrick Buchanan (left), right-wing commentor, meet to discuss the North American Free Agreement, before the vote.

Apec nations at odds over Gatt talks

By George Graham and Alex Nicoll

TRADE and foreign ministers from the Pacific region gathered in Seattle yesterday for their annual Asia Pacific Economic Co-operation meeting still divided over how far to go in their efforts to kickstart the Uruguay Round of global trade negotiations.

Apec officials said they had still not resolved whether the ministers should simply issue a statement calling for a successful agreement to liberalise rules on trading and investment within the General Agreement on Tariffs and Trade, or should show their commitment to breaking the logjam at the Gatt talks in Geneva more forcibly by offering further tariff cuts.

"The clearest demonstration would be the collective willingness to go the extra mile and put additional tariff reduction offers on the table in Geneva," said Mr Tony Miller, Hong Kong's director-general of trade.

Senior officials from the Apec countries have been holding talks in Seattle since the weekend to prepare the ground for the meeting, but had not been able to resolve this issue before their ministers arrived for an opening dinner last night and the start of serious discussions this morning.

The Apec meeting is taking place at a critical moment for world trading negotiations, coming immediately after last night's vote in the US Congress on the North American Free Trade Agreement and less than a month before President Bill Clinton's fast-track negotiating authority for the Uruguay Round expires on December 15.

At the least, officials said they expected the ministerial meeting to issue a declaration urging more progress on the Gatt talks.

Ms Charlene Barshefsky, deputy US trade representative, said: "It is the view of Apec senior officials that substantial impetus needs to be given to the Round in order for it to be concluded by the deadline of December 15.

"I expect a declaration on the Uruguay Round. I would hope and expect that that declaration would be extremely strong."

Nevertheless, some officials acknowledged that anything Apec might say or do would be largely peripheral to the main issues that are still holding up conclusion of the Round, many of which lie between the US and the European Union.

Some countries left out of Apec have questioned whether Mr Clinton's new emphasis on building trading ties to the Asia Pacific region represented an effort to build a fortress-like trading bloc incompatible with Gatt's multilateral approach.

But US officials say a strengthened Apec would be "a building block, not a trading bloc", which would not shut out other nations and would complement the Gatt.

Investment and trade links boosted

By Alexander Nicoll

OFFICIALS from 15 Pacific countries yesterday agreed on a new trade and investment framework which will mark a modest step towards closer co-operation without setting the stage for creation of an Asian trade bloc.

A declaration expected to be approved by trade and foreign ministers of the Asia Pacific Economic Co-operation group, who began their annual meeting last night, will establish a permanent committee on trade and investment.

Ms Charlene Barshefsky, deputy US trade representative, said the new framework "will take Apec beyond its current role as a facilitation and co-operation forum to a policy-making role, to be expanded through consultation and consensus by its members". The committee, she said, would be charged with finding "ways to expand trade, create a more attractive investment climate and facilitate the flow of goods, capital and technology across the region".

Mr Kim Chulsu, South Korea's trade minister, said: "This is a mandate for a more active approach to advancing regional co-operation."

However, according to participants, the discussions on the new framework revealed vigorous disagreement about Apec's future role, some members favouring creation of formal, bureaucratic structures in which to discuss trade liberalisation and others - apparently a majority - preferring to maintain a more liberal, informal approach.

The resulting declaration will represent only a mild institutionalisation of Apec. Mr Tony Miller, Hong Kong's director-general of trade, said it "binds nobody but sets out a collective view." One of Apec's advantages over other bodies, he said, was its informal atmosphere.

An Australian official said the new committee was "a step of considerable significance" although he conceded that "to an outsider it might not seem to amount to much". He said the idea had been too sensitive to raise when Apec was founded only four years ago. The committee's work would include harmonisation of customs procedures, a database of regional tariffs, and a study of investment regulations.

Differences of view over Apec's future role were also evident in the officials' discussions on a report by an eminent persons group headed by Mr Fred Bergsten, a US economist. The report, to be submitted to the ministerial meeting, sets out a series of steps towards creation of a Pacific economic community.

Mr Miller said the report was a "truly visionary piece of work". However, some members had reservations about the path it recommended. Ms Barshefsky said Apec would implement "selected aspects" of the report.

US services push may backfire

By David Dodwell, World Trade Editor, in Geneva

US strong-arm tactics to press other countries to open their markets to trade in financial services are in danger of backfiring, as Uruguay Round negotiators in Geneva threatened this week to react by entirely withdrawing conditional market-opening offers.

"Other countries are simply going to follow the US lead and withdraw their offers in financial services," a senior negotiator in the General Agreement on Tariffs and Trade said yesterday. "It would be absurd for the US to throw everything aside because of problems it has with a tiny number of developing countries whose share of financial services business worldwide is negligible."

US banks, brokerages, and insurance companies would be among the main beneficiaries worldwide of more open financial services markets and so would be main casualties if market-opening offers were withdrawn.

US officials have aroused controversy in the final stages of negotiation of the Uruguay round talks on world trade liberalisation by demanding an exemption in financial services from the obligation to offer most favoured nation status to all-comers. The US plans to restrict full MFN access to its financial services markets to a small group of industrial countries that have similarly liberal banking and securities regimes. Other countries will have MFN rights limited to the rights that exist at present. Improved access would depend on progress in liberalisation in their own market.

Observers have interpreted the move as a US effort to win improved market-opening offers from countries like Japan, Korea, India, Singapore, Malaysia, Thailand, Indonesia and the Philippines.

"The US wants its cake, and wants to eat it too," said one Asian negotiator said: "It wants other countries to accept multilateral obligations to open their financial services markets, but wants to reserve its power to exert bilateral pressure. If it does not change its mind, we would have no choice but to do the same."

A senior Indian diplomat noted: "Just as the US is getting vastly improved offers in financial services, it is putting everything in jeopardy with their two-tier MFN proposal."

Many countries see the US threats as no threat at all; they see no prospect of seeking a presence in the US banking, securities or insurance markets, and are offering to open their financial services sectors as a necessary price for better access to US and EU markets for products like textiles and farm goods. As it has become increasingly clear that the US and EU are unlikely to improve offers in these areas, so developing countries have become more reluctant to keep financial services offers on the table.

A spokeswoman for the US Coalition of Services Industries, which has lobbied hard for the past six years for a big financial services package in the Uruguay round, said yesterday that she was "surprised and disappointed" by responses: "We have been very flexible, and have changed course as the world has said it is unable to live with the proposals the US has put forward. It is late in the day to be doing this kind of thing, and I am not sure what pulling offers off the table will accomplish."

Kantor expects 'concrete' offers by Apec

By Nancy Dunne in Washington

THE Seattle summit of the 15-nation Asia-Pacific Economic Co-operation forum will produce "concrete" offers for the bargaining table in Geneva which will help the Uruguay Round towards a successful conclusion by December 15, Mr Mickey Kantor, the US trade representative, said yesterday.

In high spirits and confident of approval by the House of Representatives of the North American Free Trade Agreement, Mr Kantor said an administration victory on Nafta would provide President Bill Clinton with "the moral and political authority to go to the Apec and work with his counterparts - and they will respond".

He said he expected further momentum to come from his meetings with Sir Leon Brittan, the European Union's chief trade negotiator, in Washington next week. "We will get a Uruguay Round [deal]," he said.

Mr Kantor said the US was taking the leadership on trade "to grow the world economy" and would continue to do so. Vital to this was Mr Clinton's belief in the link between US economic and national security and between both of those and trade.

Mr Kantor was optimistic about US relations with France, which are vitally important to final agreement. He said one "big mistake" the previous administration had made was in not directly engaging with the French. He, himself, has twice met French officials in recent months.

"They have their own interests," he said. "We cannot question their motivations. We may disagree with their conclusions, but we don't personalise this."

In Geneva it has been presumed that the Clinton administration has been distracted by the Nafta battle. Mr Kantor, however, insisted that US officials have been "busily engaged" in Geneva.

Other US officials say the numerous side deals which gave dozens of congressmen the political cover to support Nafta are not likely to impede progress in Gatt. For example, President Clinton was pressed to seek a 15-year phase-out of textile quotas rather than the 10-year period contained in the negotiating text.

In a letter to textile interests, the president ultimately promised to "achieve the longest possible phase-out" and to ask Mr Kantor to explore the prospect of a 15-year phase-out with nations believed to favour it.

Mr Clinton promised to ensure that the impact of the Uruguay Round was eased as far as possible, "including specifically addressing the question of gradual and even staging of tariff reductions and quota integration".

Alumina project revived in Greece

By Kerin Hope in Athens

GREECE'S new Socialist government is reviving a much-delayed project to build a $500m alumina plant in central Greece, using Russian technology and equipment.

The plant at Thisbe, 120km from Athens, would produce 600,000 tonnes of alumina a year from locally-mined bauxite to supply aluminium plants in Russia.

The industry ministry wants private investors to take a 10 per cent stake in the project. A group of state-owned Russian companies, including several aluminium smelters, would have a 51 per cent stake, with the remainder held by a Greek state company.

The ministry said it was reappointing as its advisers Salomon Brothers of the US, which worked on the project under the previous conservative government.

The project was halted two years ago because of financing problems. Construction of a port for the plant on the Gulf of Corinth near the site was completed but work on the processing facility failed to start because of financing problems.

The Socialist government hopes to obtain some funding for the project from the Delors II package of structural aid for poorer member-states of the European Union.

Rolls-Royce in third Indian power contract

By Stefan Wagstyl in Bombay and Chris Tighe in Newcastle

ROLLS-ROYCE, the British engineering group, yesterday won a £275m order for a power station in the Indian state of West Bengal. It was the company's third Indian contract signed this week and brought the total to £660m.

The contracts have been completed during a week of British business events in Bombay attended by Mr Douglas Hurd, foreign secretary. Other companies which announced commercial agreements yesterday included British Gas, the PowerGen generating company, and Aerospace Composite Technologies, a high technology materials manufacturer, which won an order for replacement windscreens for India's Russian-built MiG-21 fighter aircraft.

Rolls-Royce is to manage the construction of a 500MW coal-fired plant at Balagarh and supply generators from the UK for the Calcutta Electric Supply Corporation, an affiliate of the Calcutta-based R P Goenka business group. The total turnkey contract will be carried out by Rolls-Royce Power Generation Systems, part of Parsons Turbine Generators based in Newcastle upon Tyne, on behalf of CESC of Calcutta.

Parsons will supply two 250MW steam generators for the three-year project, located on an island in the Hoogli River.

Yesterday's news follows Tuesday's announcement by Rolls-Royce Industrial Power Group of two Indian power station projects worth £385m. Under these contracts The company will build a 200MW gas-fired combined cycle plant at Kakinada in Andhra Pradesh, and participate in a new company, Chandil Power, to build and operate a 500MW coal-fired power station at Chandil in Bihar.

The three contracts give Parsons a total of five new turbine generators to build, providing work into 1996. Rolls-Royce and Goenka have also established a joint venture company to manage the refurbishment of existing power stations, many of which operate far below capacity.

PowerGen agreed a similar venture with Aditya Birla, a diversified industrial group led by Mr Aditya Birla, which will bid to build new plants as well as upgrade existing ones.

British Gas signed co-operation agreements with the government's Oil and Natural Gas Commission covering technical aspects of oil and gas development in India and possible joint exploration overseas.

Zeneca, the chemicals company, established a joint venture with ITC, the Indian affiliate of BAT Industries, for a seed technology company.

Thomson in UAE deal

Thomson-CSF, the French defence electronics company, has won a $100m (£67m) order to supply the United Arab Emirates with its PR4G radio system, writes David Buchan in Paris. The system, also sold to the Netherlands, Spain and Switzerland, will be used in various vehicles, including the Leclerc tank ordered from Giat of France.

Caribbean rum producers seek a fuller EU measure

France is being blamed for what is seen as foot-dragging on opening the market further, writes Canute James

CARIBBEAN rum producers have asked the European Union to increase the quota for rum they can ship duty free, and then to abolish the quota to end a shortage of the product in Europe.

A senior official of the European Commission said the rum quota would be increased by previously agreed levels next year, and the possibility of abolishing the quota would be studied. The producers say, they need more immediate action to end what they say is the disruption of the market.

The rum producers, part of the African, Caribbean and Pacific (ACP) group of countries, have criticised the EU for being slow to honour legal commitments to react by increasing the access for rum to meet the growing demand.

They say this is written into the Lomé Convention, a trade and aid treaty between the EU and the ACP. The current quota stands at 220,000 hectolitres a year, following a 30,000 hectolitres increase.

"To the extent that the consumption of rum increases significantly in the [Union], the [Union] undertakes to carry out a new examination of the annual rate of increase fixed by this protocol," says the convention.

Officials from the rum producing countries say that what is seen by many as the Commission's foot-dragging is the result of pressure from France which wants to protect its domestic rum industry in Martinique and Guadeloupe, its two Caribbean departments.

"Rum is the only industrial product covered by the Lomé Convention which is subject to quotas," says Mr Yesu Persaud, chairman of the Caribbean Association of Industry and Commerce. "Because of the quota system, the Caribbean rum industry is now experiencing serious disruption because the demand for rum in the [Union] has been growing rapidly."

Mr Peter Pooley, director general of the Development Directorate of the European Commission, has assured rum producers that the automatic quota increase of 20,000 hectolitres will be effected next year. "In February 1994 we will begin work a report on dismantling the rum quota," he said.

One Caribbean official describes this as "cold comfort" to an industry that had a market "begging for the product but which is being obstructed for reasons known only to themselves" by the EU.

Before the Lomé Convention was agreed, rum from what are now the ACP states entered Europe unrestricted. There were no quotas, although the product was subject to duty. With the first Lomé agreement, France insisted on a quota for the quantity of rum that could be imported duty free, and this was written into the current agreement.

Demand has been outstripping the quota for some years

Demand for rum in Europe has been expanding steadily since 1989 when the EU legislated on the definition of rum, establishing that it had to be made from sugar cane. This destroyed a lucrative market for several other spirits which had been marketed in Europe as rum, and also drove counterfeiters out of the market.

"This growth has continued and is now outstripping the quota we have," says Mr Patrick Mayers, chairman of the West Indies Rum and Spirit Producers Association. "The quota was exhausted at the end of the quota year which ended in June, and will soon be for the current year."

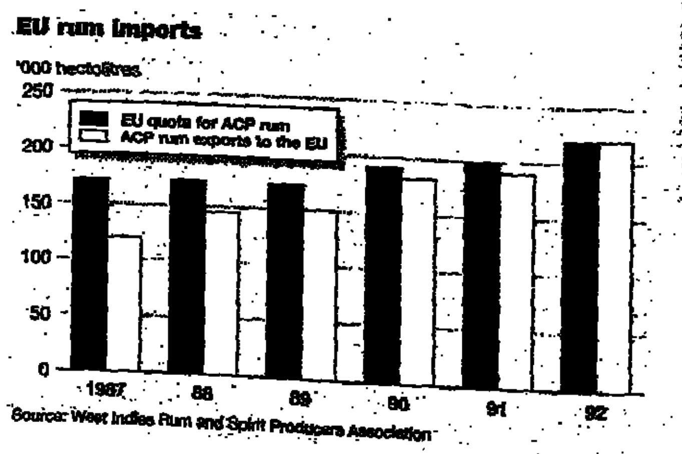
Mr Mayers says many European importers and distributors have told their Caribbean suppliers to ensure that the problems of the last quota year are not repeated, as they would not be able to handle shipments which exceeded the quota. Such imports attract a "punitive" duty which makes the product too expensive to be sold, says Mr Mayers.

The automatic increase of 20,000 hectolitres which they will get next year is considered by the producers insufficient to resolve the problem. They say that the rate of growth of demand for rum in the EU will soon outstrip the increased quota, and that the situation will become tighter when new members join the Union.

The European market brings the Caribbean producers about $20m (£13m) a year, and these earnings could increase significantly if access were to be improved, says Mr Mayers.

Rum producers fear that a continued shortage of the product will lead European consumers to turn to other liquor, leaving rum a difficult task in regaining market share if and when access for the product is increased either through higher quotas or an abolition of the quota.

EU rum imports



Source: West Indies Rum and Spirit Producers Association

which involve the construction of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is to proceed.

In the Ukraine, unable and

and western nuclear scientists.

Mr Rémy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

economy, supplies of other fuels and other factors over which the nuclear industry has little control.

US figures reflect fall in mortgage rates

Housing market recovers strongly

By Michael Prowse in Washington

A STRONG recovery is under way in the US housing market following reductions in mortgage rates this year to the lowest level in two decades, figures indicated yesterday.

The Commerce Department said housing starts rose by 2.7 per cent last month and by 14 per cent in the year to October. Officials revised up already strong figures for starts in August and September. Building permits also rose, pointing to continued strength of starts.

Most analysts expected only a marginal increase in starts last month given big increases earlier this autumn. Starts are now running at an annual rate of 1.4m, the highest level since February 1990, when the previous business cycle was approaching its peak.

Most of the strength was concentrated in "single family" homes, which rose 5.8 per cent from September. Construction of apartments remains subdued, reflecting overbuilding in the 1980s and fewer young people seeking first homes.

The increase in starts was strongest in the Midwest, where rebuilding after flooding contributed to a 13.3 per cent increase from September. Starts rose only modestly in the west, because the Californian economy remains depressed, and fell in the northeast.

The starts figures are the latest in a series of economic statistics indicating that the pace of US economic growth is accelerating after a weak first half.

● Starting in the new year, changes in the way the US Labour Department estimates unemployment will increase the official jobless rate significantly.

On the new definition, the jobless rate averaged 7.6 per cent in the year to August, compared with the published figure of 7.1 per cent.

Officials said the female jobless rate had been seriously under-estimated because many women seeking work had been wrongly classified as "homemakers". Using the revised series, the female jobless rate was 6.8 per cent in the year to August, not 6 per cent as previously reported.

The new unemployment series is likely to increase concern on Capitol Hill about lack of job opportunities and harden opposition to any early move by the Federal Reserve to tighten monetary policy.

The new series will come into effect with the release on February 4 of unemployment figures for January. The changed definition could increase the January jobless rate by anything from 0.1 to 1 percentage point.

Mexico's intellectuals win back tax breaks

By Damian Fraser in Mexico City

MEXICO'S intellectuals have won a remarkable victory over the hardline technocrats in the finance ministry by gaining exemption from taxes on their artistic work.

President Carlos Salinas ruled in favour of the intellectuals on the eve of the US congressional vote on the North American Free Trade Agreement, doubtless hoping that Mexico's cultural elite would support him in his continuing quest to integrate Mexico with the US.

Since the 1910 revolution, Mexico's writers and artists have had a strong hold on the country's political conscience. But their tax break was abolished in 1990 by Mr Pedro Aspe, the orthodox finance minister, and a fervent opponent of tax advantages for special interest groups.

Ever since, intellectuals from right and left have fought for restoration of the exemption, which they believe is their historic right.

The tax break will help "artistic creation in Mexico, and that strengthens Mexican culture and national identity", a presidential spokesman said. "It is important for a country to stick to its identity and be close to its roots, especially in times of transformation."

The measure was backed by Nobel prize-winner Octavio Paz and the novelist Carlos Fuentes, who agree on little else but their right to be exempt from taxes.

The writers objected not just to paying the government money, but to filling in long and complicated tax forms. "It will help my mental stability," said Mr Carlos Monsiváis, a leading left-wing essayist. "I live in fear of the tax collectors. I spent one year trying to understand my forms and could not. I could not sleep."

A presidential aide sympathised, and said Mexican writers were not meant to understand tax forms. "This will put them in a better mood and unleash their creative energies," he said.

"The creators and authors have to steal time from nowhere to produce a poem, a work of history, a novel," said Mr Enrique Krauze, the conservative historian who usually supports free market economics.

"As an editor, or if I give a conference, I pay taxes. But if my work sells a book, I will not pay taxes, as has historically and traditionally occurred in Mexico."

Bolivian workers agree to end strike

BOLIVIA'S government and unions have defused a conflict over the firing of state workers and agreed to resume talks on how to sort out the country's problems, officials said, Reuters reports from La Paz.

The agreement came after eight weeks of growing labour unrest which peaked in a national strike on Monday.

The deal was signed on Tuesday just hours after Bolivia's trades union federation, the COB, voted to suspend their indefinite strike which began at midnight on Sunday.

The new centrist government, which had said it would not negotiate while the strike was on, agreed in return to reinstate 1,100 out of 10,000 workers sacked as part of plans to modernise the economy.

Guatemalan reforms agreed

Guatemala's President Ramiro de Leon and Congress have reached a deal to reform the constitution, breaking an 11-week impasse that had brought the government to a standstill, Reuter reports from Guatemala City.

Under the agreement, congressional elections due to be held in 1995 will be brought forward as soon as legally possible, new appointments will be made to the judiciary, and a plebiscite will be held to approve the proposed constitutional reforms.

Demjanjuk order revoked

A US federal appeals court yesterday overturned the 1987 order under which accused Nazi death camp guard John Demjanjuk was extradited to Israel and said government prosecutors committed a fraud on the court in obtaining it, Reuter reports from Cincinnati.

Mr Demjanjuk, 73, was freed by Israel after courts ruled that he was a victim of mistaken identify. He returned to the US in September.

Nicaragua breaks aid logjam

By Stephen Fidler in London and David Scanlan in Managua

THE Nicaraguan government has agreed under pressure from the International Monetary Fund to take measures to raise tax revenues or cut spending, breaking a logjam which had been holding up flows of official finance to the country.

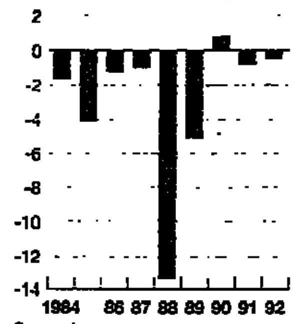
This initial agreement with the fund immediately paves the way for finance from the Inter-American Development Bank and Taiwan totalling about $55m (£36.9m). It also clears the way for the arrival next week of a team from the IMF, to negotiate $25m in concessional funding, and the World Bank.

The IMF has been seeking government savings, either spending cuts or revenue increases, equal to 4 per cent of GDP. Earlier disagreements with the World Bank and IADB, which both saw this as too tight a policy for a war-damaged economy with single-digit inflation, seem to have been resolved.

If the IMF agrees to provide finance, under an Enhanced Structural Adjustment Facility used mainly by poor countries in Africa, it will clear the way for funds from the World Bank totalling some $80m, some possible US finance, and some tied aid.

Nicaragua's foreign exchange reserves had fallen close to zero, with imports of around $800m a year running at four times the level of exports. Inflows of official finance are essential to replenish reserves, since private investment is almost non-existent, because of the impossibility of enforcing property rights.

Nicaragua



Source: Intermex

Despite the advances in the negotiations, questions remain about the ability of President Violeta Chamorro's government to deliver on its promises. An earlier attempt to levy a vehicle tax was reversed this year after widespread protests.

The government has been seeking, so far unsuccessfully, to include representatives of the left-wing Sandinistas, the former guerrillas defeated in a 1990 election, in the negotiations with the IMF and World Bank.

Mrs Chamorro's government has been paralysed by the collapse of the conservative UNO coalition which swept her to power in 1990. The US suspended aid to Nicaragua last summer because of the continued heavy involvement in government of the Sandinistas, described by one US official as running a "state within a state".

More recently, the Sandinistas have attacked government plans to privatise several public utilities and Mrs Chamorro's insistence that Mr Humberto Ortega, brother of former Sandinista president Mr Daniel Ortega, step down next year as head of the military.


Ashley Ashwood
Mrs Chamorro's government has been paralysed

The Sandinistas are also unlikely to find the IMF proposals acceptable. They have been seeking a relaxation of credit constraints which would particularly affect agriculture, and benefit, not coincidentally, many Sandinistas.

The Chamorro government has had startling success against inflation, bringing it down to single digits from an annual 33,600 per cent in 1988 and 13,500 per cent in 1990. But with unemployment as high as 60 per cent and poverty worse than anywhere in the Americas except Haiti, austerity is unpopular. "We have just emerged from a decade of war. This policy ignores that," said Mr Oscar Rene Vargas, an economist in Managua.

Boost for loans to Latin America

By David Pilling in Santiago

STABILITY and economic growth in Latin America is changing the way the Overseas Private Investment Corporation, the US political risk insurer, does business in the continent, according to Mrs Ruth Harkin, Opic president.

The organisation, 40 per cent of whose activity is in Latin America, plans to shift from insurance towards loans, raising the amount available for loan guarantees from $50m (£33.5m) for each project to $200m. This will enable it to become involved in large projects such as the planned Argentina-Chile gas pipeline.

Compared with much of the group's portfolio, such as the former Soviet Union and Gaza Strip, "this region begins to look stable," Mrs Harkin said. "There is going to be less demand for insurance coverage but more for loan guarantees."

The organisation expects to offer at least $1.7bn in insurance, loan guarantees and equity to support US private investment projects in Latin America this fiscal year, against $1.4bn in 1992-93. The figure could be "significantly higher," Opic said.

"In Latin America our relationship has matured and we feel comfortable about expanding and changing our role," added Mrs Harkin, who is leading an Opic mission to Brazil, Argentina and Chile focusing on environmentally-related business.

The Opic delegation, sponsored by 20 US companies including Chase Manhattan Bank, is the first to focus specifically on the environment, a sector growing by 25 per cent a year.

NEWS: INTERNATIONAL

LDP members told to vote against reform proposals

By William Dawkins in Tokyo

THE LEADERSHIP of Japan's divided opposition Liberal Democratic party yesterday called on members to unite and vote against government plans to clean up the scandal-ridden political system.

The call, by Mr Yohei Kono, the LDP president, is unlikely to upset the government's predicted victory in today's parliamentary vote to reform the electoral system and curb political donations.

Political observers expect the proposals to get a four-to-five seat majority today, after which they pass to the upper house, the final hurdle before becoming law.

The upper house, where the seven-party coalition government also has a majority, is expected to take about a month to clear the proposals.

Prime minister Morihiro Hosokawa had hoped to reach agreement with the LDP. But he was forced to break with tradition and put the four reform bills to a vote after negotiations broke down on Tuesday morning.

Later that day, the bills won a 20 to 19 majority in a parliamentary committee, opening the way for them to proceed to the full house.

Despite Mr Kono's attempt to restore party discipline, more than 10 LDP MPs are expected to vote for the government's plans.

Two to three times that number are thought to be considering leaving the LDP, which has 227 seats in the 511-seat lower house. That would seriously weaken the LDP, which ruled Japan for 38 years until last July.

The coalition looked set to hold together in today's vote, despite the fact that amendments, made in an attempt to win LDP support, have offended some members of the Social Democratic party, the largest coalition member.

Socialist officials said three to four members might vote against the government despite calls for party unity, but this would not be enough to deprive the coalition of a majority.

Emperor's MP wants to keep multi-seat system unchanged

By William Dawkins

MR KAORU YOSANO, a member of parliament for the Liberal Democratic party, was an unhappy man yesterday.

Mr Yosano, 55, represents the central Tokyo district which includes parliament and the emperor's palace. He is one of the mainstream of LDP politicians who will today vote against the government's plans for political reform.

Mr Yosano, winner of six elections and former vice-minister of the ministry of international trade and industry, argues that the proposed shift from multi-seat constituencies to single seats will worsen, rather than lessen, the corruption which has discredited the political system.

"It's just going to accelerate hidden competition. Small boroughs are all very well when each party has different policies. But the policies of the LDP age have been carried over exactly by the the new government, so people will find it very hard to differentiate between parties," he says. This will intensify what he euphemistically calls "service competition".

Instead, he would prefer the present multi-seat constituency system to remain intact. Reform should, for the moment, be limited to a bill to curb corruption, he believes. "After all, it took Britain 400 years to bring about political reform."

The outlook for the opposition LDP is bleak, Mr Yosano admits. "At least half the party membership feels as I do, but we are being carried away by the wave of the age...It is too late to argue, so we will not argue any more," he says gloomily.

He knows the LDP will be outvoted in the lower house and fears it will lose "almost all" its urban seats in the election to be held next year, if the coalition manages to field single candidates under the new system.

Holders of large constituencies such as his own, which has more than 500,000 inhabitants, will find it particularly hard to raise enough campaign cash to fight an election, under tough new curbs on political funding.

"Money will be very difficult to obtain from companies. So we will have to rely more on personal donations, which will be difficult in the current atmosphere in Japanese society," he says, referring to the outrage aroused by years of political corruption.

The average candidate needs Y30m (£188,600) to run a 14-day election campaign, and far more to finance the months of preparation required, he estimates. However, Mr Yosano is unwilling to put a figure on his own election expenses. "Do you want me to confess?" he laughs.

Mr Yosano plans, at least for the time being, to stay loyal to the party and to his LDP faction, led by Mr Michio Watanabe, the veteran former foreign minister who opposes reform.

But in the longer term, he admits he might have to rethink his loyalties. "If there is a big earthquake, I have to escape one way or the other," he says.

Bolger to form a government but says 'I got the message'

PM's party scrapes home by one seat after New Zealand's voters show their weariness with reforms. Terry Hall and Reuter report

NEW Zealand's conservative National party yesterday secured the majority - albeit a "wafer-thin" one - that it needs to form a government and prime minister Jim Bolger said he could govern for a full three-year term.

But he indicated that his government would slow down its reform programme, saying the electorate had given the party a "pretty clear message about what it thought of them".

The counting of special votes from absentee electors gave the National party the one extra seat it needed for an overall majority, ending the political stalemate created 11 days ago when a general election delivered a hung parliament.

The vote count lifted National to 50 seats from 49 on election night in the 99-seat parliament, with the Labour opposition dropping to 45 from 46 and the two minor parties steady on four seats.

Mr Bolger said he was delighted the stalemate was over but understood the message voters sent his government when they cut its majority from 34 seats.

In an interview, he said he had repeatedly pointed out during the election campaign that the government had completed most of its reform plans during the past three years.

Mr Bolger indicated that, because of his party's small majority, he would try to involve the opposition in some sort of consensus on policy, although he said it would not be possible to "run around" and consult them on every issue.

Bolger: 'we can govern for three years' Tony Andrews

"There will be some topics such as employment that we'll want to discuss with them," he said.

Financial markets echoed Mr Bolger's delight with the result. The New Zealand dollar rose a full cent to US$0.5500 and the share market ended almost 5 per cent up on the day.

Last week both local and international investors reacted badly to the hung parliament and the voters' decision to change to a proportional representation electoral system.

The huge inroads into National's majority and support for the left-leaning Alliance and populist New Zealand First parties were seen as a rebuff to free-market policies that both National and Labour governments have pursued since 1984.

The slender majority is expected to make for parliamentary difficulties for Mr Bolger as opposition parties are expected to demand that National provides a Speaker, who does not normally vote.

This would leave National with 49 voting MPs, the same as the opposition parties. Under recent changes the Speaker can vote with the government on minor matters but cannot support issues that he believes parliament as a whole would not approve.

The leader of the Alliance, Mr Jim Anderton, said last night his party, which won two seats, would honour its promise to support the government on motions of confidence.

Labour leader Mr Mike Moore congratulated National on its win but said his party would keep up pressure to moderate National party legislation on such things as trade union legislation.

Mr Bolger last night refused to say whether the finance minister Ruth Richardson would continue in the post in the new government. Both the Alliance and Labour have criticised her "New Right" views, and hinted that they would have difficulty working with her in the new "consensus" politics.

Ms Richardson says she wants to stay and Mr Bolger will have to take into account her popularity in the financial markets.

Mr Bolger yesterday reversed his earlier decision not to attend the meeting of Pacific Rim leaders at this week's Asia Pacific Economic Co-operation conference in Seattle.

He said he would fly to the conference today and return next Tuesday to form his administration. He said he would not call parliament until immediately before Christmas.

One of the biggest problems for the government over the next three years will be potential rebellions by its own members, three of whom are known to disagree strongly with a number of its policies.

Yesterday, in a hint of what may be to come, one of National's most outspoken MPs, Michael Laws, threatened to resign if the government allowed an apple exporting company, Applefields, to break the Apple and Pear Board's monopoly on selling fruit overseas.

In what appeared to be a turnaround, the minister of agriculture John Falloon said that a break in the monopoly would be against the interests of apple exporters.

Facing the future together: black and white children at a multi-racial school in a Johannesburg suburb

Glyn Genin

Dawn of the new South Africa

Last-minute climbdown by De Klerk seals deal on constitution

By Patti Waldmeir in Johannesburg

IT HAS BEEN one of the most extraordinary revolutions of modern times: a negotiated revolution, which was last night drawing to a close as South African politicians put the final touches to a constitution to end 350 years of minority government and replace it with majority rule.

After a dramatic last minute capitulation, the ruling National Party accepted a provision of the constitution which effectively strips the white minority of almost all entrenched powers in the proposed government of national unity.

President F W de Klerk, who has promised since the day he took office that he would never allow majority domination to replace minority rule, clearly decided sometime on Tuesday night or Wednesday morning that voluntary power-sharing was the way to achieve this – not the kind of entrenched co-rule which his supporters have long been promised.

National Party ministers will serve in the new cabinet, in proportion to their share of the national vote in the April 27 elections; they may well control pivotal ministries such as finance. But when it comes to decision-making in cabinet, the president (likely to be Mr Nelson Mandela of the ANC) will ultimately decide. He will try first to seek consensus on his decisions "in the spirit of national unity"; but when the chips are down, his will shall prevail, and the National Party will be powerless to stop him.

Until late on Tuesday night, Mr de Klerk had been insisting that this would not be so: where consensus could not be reached in cabinet, a 2/3 vote would be required to pass certain important decisions (this might have allowed the National Party, with allies, blocking power). But in a late night meeting, Mr Mandela apparently insisted that the ANC would accept only a 50 per cent majority to break deadlocks – a figure they are almost certain to command – and Mr de Klerk decided instead to drop percentage voting altogether, in exchange for a commitment from Mr Mandela to a "consensus-seeking spirit".

National Party negotiators defended this deal, which was struck by exhausted negotiators after weeks of almost sleepless nights. They acknowledge that their role in cabinet will depend on the goodwill of Mr Mandela, and repeatedly stress their reliance on the "spirit of reconciliation" which has developed, especially over the past year, between politicians from opposing sides.

They believe the National Party does not need entrenched constitutional provisions to play a powerful role in restraining the ANC: the ANC has assured Mr de Klerk that it does not wish to govern alone (and does not believe it could do so effectively); and he has accepted those assurances, bolstered by his party's substantial power base in the civil service and military, and in the electorate at large.

See Editorial Comment; Survey on investment in South Africa, Section II

It is a gamble, but one which is probably inevitable: as a minority government whose power diminishes by the day, negotiators clearly calculated that a deal done now would be preferable to that available next month or next year. Only time will tell whether they are right to prefer a voluntary arrangement to entrenchment of some powers for minorities; but precedents from the rest of Africa suggest that powerful ruling parties tend to abuse their power, unless forcefully prevented from so doing.

Mr de Klerk promised last week that "only the National Party can stand fast against the lust for power of the ANC"; that claim is substantially undermined by last night's agreement, which could further strain National Party support which stands at only 11 to 13 per cent in recent polls. One political commentator assessed the deal in this way: "If the ANC believes the National Party are gatekeepers to white confidence, they'll stick to the deal. If not, they won't. At the end of the day it will depend on politics, not the rules."

Negotiators argued last night that this much weakened form of power-sharing is part of a larger package which provides other safeguards against the abuse of power: a bill of rights, a second chamber in the legislature which provides for regional representation, a guarantee that the government of national unity will remain in force for five years, and agreement that a final constitution (to replace the document now being finalised) must be passed by at least a 60 per cent majority.

But overall, the National Party has settled well below its bottom line on checks and balances. The party's 1991 constitutional proposals called for political power to be divided between three tiers of government – central, regional and local – with each tier to have "original and entrenched authority with which other tiers of government may not interfere".

In fact, central government retains wide powers to "interfere" with regional governments: though the regions (to be called provinces) are to be granted primary responsibility for areas such as primary and secondary education, housing, health, policing, etc, central government reserves the right to intervene in these areas to impose uniform national standards, to ensure proper regulation, to protect the national economy or national security, and where there are implications for national economic policy; in short, the constitution authorises central government to intervene in terms so vague as seriously to undermine regional autonomy. And with regions barred from imposing taxes without central government approval, it is hard to accept Mr de Klerk's claim that the new state will be "federal".

In the end, democracy in South Africa may well only be viable if the stakes attached to winning or losing an election are reduced, and that can only happen if losers continue to have a powerful say in government.

From Zulu wars to multi-racial power-sharing

End of 350 years of white domination

1652 Dutch East India Company establishes post at the Cape

1816-28 Zulu kingdom rises under King Shaka

1836-40 Afrikaner farmers stage the Great Trek away from British rule

1838 Afrikaners defeat Zulus at Battle of Blood River

1899-1902 Anglo-Boer war ends with Afrikaner defeat

1910 Union of South Africa, parliament limited to whites

1912 South African Native National Congress, first national African political movement formed, later renamed ANC

1913 Africans limited to land ownership in 7 per cent of South Africa

1914 National Party formed

1921 South African Communist Party formed

1936 Native reserves increased from 7 to 13 per cent of all land

1948 National Party wins surprise victory, introduces apartheid which codifies and expands racial segregation

1950 Population Registration Act passed, classifying people by race; Group Areas Act enforces residential segregation

1952 ANC launches non-violent defiance campaign

1960 police kill 69 unarmed Africans in Sharpeville; ANC and PAC banned

1961 South Africa leaves Commonwealth, ANC abandons policy of non-violence

1964 Mandela and other ANC leaders sentenced to life for sabotage

1976 Soweto uprising, 1,000 protestors killed over following months

1977 Steve Biko, black consciousness leader, dies after police beatings

1978 PW Botha becomes Prime Minister

1979 African trade unions legalised

1982 Conservative Party breaks away from National Party

1983 launch of United Democratic Front, umbrella anti-apartheid group

1984 tri-cameral parliament set up with separate white, coloured and Indian houses; prolonged violence in black townships

1985 state of emergency imposed; President Botha delivers "Rubicon" speech rejecting calls for change; debt moratorium imposed after overseas banks refuse to roll over loans; white South Africans hold talks in Zambia with ANC; press censorship imposed

1986 repeal of pass laws, which restricted African freedom of movement

1989 PW Botha suffers stroke and resigns; Botha meets Mandela in Cape Town before leaving office; National Party wins general election, FW de Klerk becomes president; De Klerk allows first mass protest marches; Walter Sisulu and other ANC leaders released from prison

1990 De Klerk unbans ANC, PAC and SACP; Nelson Mandela released after 27 years in prison; first formal talks between ANC and government; nationwide state of emergency lifted; repeal of separate amenities act; ANC/Inkatha fighting spreads to Transvaal; ANC suspends armed struggle

1991 De Klerk announces repeal of apartheid laws; Winnie Mandela found guilty of kidnapping and accessory to assault; "Inkathagate" scandal over secret government funding to Inkatha; National Peace accord signed

1992 whites vote by a large majority to end apartheid in a referendum; constitutional negotiations stall when "Codesa" breaks down; Boipatong massacre leaves 40 ANC supporters dead; ANC holds mass action campaign, including general strike; 24 killed when troops open fire on ANC demonstrators in Ciskei homeland; Government releases political prisoners, bilateral talks resume

1993 ANC and Government agree on five-year multi-racial power sharing; multi-party democracy talks resume; ANC leader Chris Hani assassinated; multi-racial elections set for April 27, 1994; Inkatha and right wing withdraw from multi-party talks; Transitional Executive Council approved at multi-party talks, bringing blacks into central government for the first time; international economic sanctions lifted.

PLO's cash crisis 'threat to peace process'

By Julian Ozanne in Paris

THE financial crisis in the Palestine Liberation Organisation could jeopardise the Israeli-Palestinian peace process, Mr Ahmed Qurie (Abu Ala), the PLO economics chief, warned *yesterday*.

Mr Qurie said the PLO had been unable to meet its operating expenses for the past five months, adding that the crisis has been absorbing the time of the PLO leadership at the expense of work on implementing the peace process.

The strike at the PLO's Paris office during Mr Qurie's visit to the capital illustrates the organisation's financial paralysis. All inquiries about the visiting Palestinians were dealt with by the Israeli embassy.

"We are completely unable to face our commitments and obligations to our embassies, departments and the institutions like universities, trade unions and chambers of commerce which form the backbone of Palestinian social life," Mr Qurie said. "And the crisis comes as we are facing the challenge of creating new institutions for the peace. (Yassir) Arafat is finding its difficult to lead the peace process in a courageous way when he cannot even pay his bodyguards standing in the front of his office."

Mr Qurie said the minimum annual operating budget of the PLO before the peace agreement was $120m, but that the organisation was now virtually bankrupt. Donors had made promises but had not yet delivered aid for operating costs.

Mr Qurie, 56, an Arafat loyalist who was the key Palestinian negotiator in the Oslo talks which produced the peace accord, said the PLO was determined to lay the embryonic economic framework for an independent Palestinian state.

"All the economic institutions will be the institutions of a sovereign state but we will be realistic about what is possible today, tomorrow or the day after tomorrow but the decisions of when to create the institutions will be ours and will be made on financial and *economic grounds," he said.*

Mr Qurie said the greatest challenge in the economic talks with Israel would be a trade agreement which respected the Palestinian integration in the Arab and Islamic world and particularly the PLO's intention to sign a free trade agreement and open borders with Jordan.

Mr Qurie confirmed reports of a serious internal debate within the PLO over the shape of the institutions that will handle the transition to self-government in the occupied territories. The rift reportedly pits Mr Mahmoud Abbas (Abu Mazen), the man who signed the peace accord in Washington, and Mr Qurie against Mr Arafat who is reluctant to release his absolute control over all PLO institutions or admit new professional people who do not have a political background.

"Palestinians are now looking for clean institutions, more democracy," he said. "We are coming to a new stage with new responsibilities and it is normal that there will be different points of view. But it will be resolved in a democratic way within the PLO."

Mr Qurie is looking forward to returning to his home in Abu Dise, near East Jerusalem, which he last visited in 1968. But like many PLO exiles who have devoted most of their life to the bureaucratic work of the liberation movement he admits little personal feelings. "I am like all Palestinians in exile who hope to go back to their land and live in peace, stability and democracy."

UN to end hunt for Aideed

By Michael Littlejohns, UN correspondent, in New York

The UN Security Council voted unanimously early yesterday to call off the hunt for General Mohammed Farah Aideed, the Somali warlord whose followers were blamed for attacks on international peacekeepers. The decision was in response to an abrupt shift in US policy after 17 American soldiers were killed on October 3 in a clash with Gen Aideed's forces.

Adml Jonathan Howe, UN special representative in Somalia, had offered a $25,000 (£16,778) reward for capture of the warlord. Without naming Gen Aideed, the resolution sought suspension of "arrest actions against those who might be implicated," pending a report that will determine responsibility for repeated attacks on UN troops.

Mrs Madeleine Albright, the US delegate, said the goal now must be to foster a political dialogue leading to national reconciliation. Gen Aideed had refused to co-operate in peace-making efforts while a wanted man and the council now hopes he will change his mind.

Seven Nigerians and 34 Pakistanis serving with the force have also been killed in attacks by Somalis.

Nigeria in new bid to end strike

By Paul Adams in Lagos

THE INTERIM government of Nigeria yesterday moved its talks with the unions from Lagos to Abuja, in a bid to end a general strike over higher fuel prices. The military-appointed government is expected to offer public-sector workers a rise in transport allowances to offset higher living costs.

Last week it imposed a 600 per cent increase in fuel prices, which it says is necessary to wipe out public-sector deficits and restore the state-owned refineries to working order.

The Nigeria Labour Congress' strike call has been largely ignored in the north, where fuel prices have been high for over a year.

The main impact of the strike has been on public transport, domestic airlines, manufacturing industry, the port at Lagos and the big banks. Banks and shops were closed in many states yesterday and traffic remained light.

There has been no disruption to oil production. "My union will strike when the time is right," said Mr Frank Kokori, head of Nupeng, the oil workers' union. "The fuel price is a sideshow, the real issue is Nigeria's political instability."

Inflation fall boosts hopes of rate cut

By Emma Tucker, Economics Staff

A SHARP DROP in UK inflation last month, together with disappointing growth in shop sales, yesterday revived hopes that Mr Kenneth Clarke, the chancellor, will cut interest rates at or around the Budget.

Intense price competition, particularly among food retailers, pulled the retail prices index down by 0.1 per cent in October, cutting the annual rate of inflation to 1.4 per cent last month from 1.8 per cent in September.

The index, excluding mortgage interest payments, also dropped 0.1 per cent on the month, returning the year-on-year rate of underlying inflation to a 25-year low reached in May of 2.8 per cent. This compares with 3.3 per cent in the year to September and the government's 4 per cent ceiling.

The fall in the headline rate means inflation has now been below 2 per cent for 10 consecutive months, the longest run below this level since 1960.

The sluggish picture on prices coincided with and reflected other official figures out yesterday that showed retail sales growth slowing in October. Together the figures underlined the patchiness of the recovery and consumers' reluctance to spend.

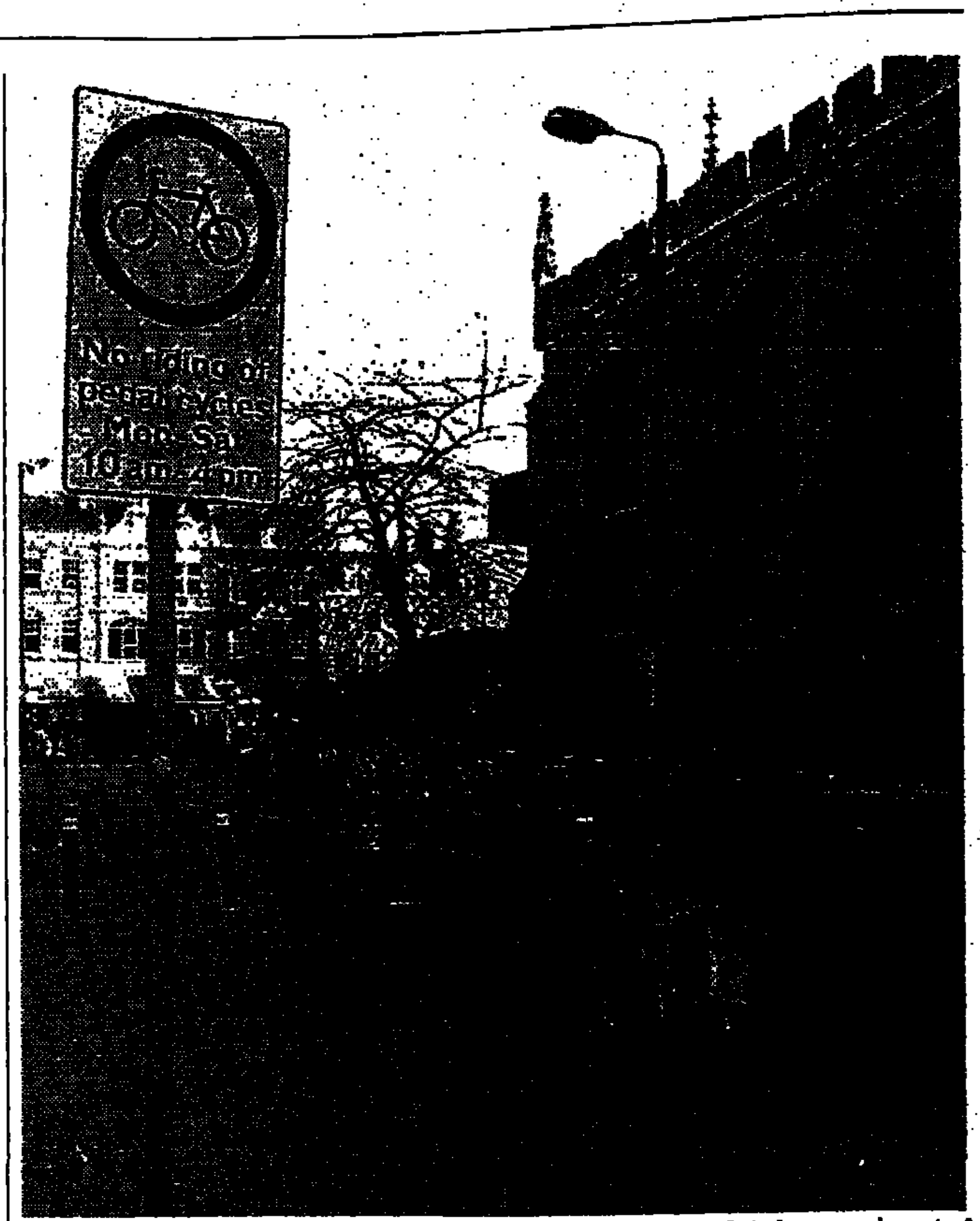
Last month, retail sales volumes rose a seasonally adjusted 0.1 per cent compared with the previous month to stand 3.2 per cent higher than a year ago. This was the lowest year-on-year rate of growth for five months.

Share prices rose on heightened expectations that bank base rates may be cut from the 6 per cent level set in January. The FT-SE 100 share index closed up 22.5 at 3,120.0. Gilts prices rose about a point in response to the low inflation figures. But interest rate speculation hit sterling, which closed down a pfennig at DM2.5175 and was almost a cent weaker at $1.4770. Mr Stephen Dorrell, the financial secretary to the Treasury, said the figures showed that the UK had a "once in a generation" opportunity to break out of inflationary cycles that have dogged it in the past".

But the weakness of shop sales is likely to increase pressure on Mr Clarke to minimise Budget tax rises for fear of damaging demand.

The latest drop in inflation reduces the chance that underlying inflation – the RPI excluding mortgage interest payments – will breach the government's 4 per cent target ceiling over the next few months. The outlook, according to the Central Statistical Office, is that inflation will remain subdued as big retailers compete to slash prices.

The most buoyant area of retail sales was household goods, which were 2.3 per cent higher in the latest three months, compared with the previous three month period. Compared with a year ago, they were 10.1 per cent higher.



The image of a cycling student, complete with a genteel wicker basket, is as much part of Cambridge as its ancient colleges, Jim Kelly writes. With Oxford and York, the city boasts a huge two-wheeled population thanks to narrow streets, a flat landscape, and tight timetables to meet. But now Cambridgeshire County Council has decided to continue a ban it introduced in 1991, preventing cyclists from using two central streets in the interests of safety. The decision comes amid a heated row between "town and gown", with the local paper running a headline "Too Posh To Walk!" and one campaigner said it was like depriving Venice of its gondolas. But Cambridge will no longer welcome bicycles between 10am and 4pm, on Sydney Street and Market Street

Blueprint for a more independent Bank

Peter Norman reports on a high-level contribution to the great debate on the British central bank

THE BANK OF ENGLAND should be free to set monetary policy independent of the Treasury and have the sole objective of pursuing price stability, while coming under much greater parliamentary scrutiny, a high-level independent panel says today.

In a report published by the Centre for Economic Policy Research, the 12-man panel of academics, financial and business luminaries, former central bankers and erstwhile finance ministry officials from Britain and abroad, chooses a middle way between the German Bundesbank model and that of the New Zealand Reserve Bank for a more independent UK central bank.

It builds on the increased responsibility given to the Bank for achieving price stability since sterling's exit from the European exchange rate mechanism in September 1992. Noting that the new system "has so far had an easy ride", the report's authors say that now is the best time to equip Britain with a stronger monetary anchor before inflation reappears. The best available anchor is a more independent Bank of England, it says.

The panel, which included an expert in constitutional law and a former Bundesbank director, has attempted to take account of the UK's history of high inflation in recent decades and its powerful parliamentary institutions. It has therefore rejected the German approach to central bank independence, which relies on the Bundesbank's strong counter inflation reputation and gives it a free hand in implementing policy, and the New Zealand system of a legal framework of contracts to govern the setting of targets and conduct of policy. Instead, the panel's approach emphasises transparency, monitoring and accountability.

Specifically, the panel proposes that:

- Price stability should be the Bank's sole statutory objective and that the Bank, not the Treasury, should formulate and announce a medium term target for inflation.
- The Bank would have full control of short-term interest rates in pursuit of its target.
- The Bank's conduct of monetary policy should be subject to routine parliamentary review. It suggests that the Bank should also submit its inflation target to parliament via the chancellor of the exchequer who would be expected to comment on the Bank's actions. The Bank would also be expected to explain how far its monetary policy options were constrained by government fiscal policies.
- The Bank should have no powers to lend money to the government.
- Sterling's exchange rate should be primarily left to the foreign exchange markets.
- In a crisis the government must have the power to overrule the Bank and take over economic policy, including monetary policy, for a limited period of time. But such a move would be a very high profile event and would require parliamentary approval. The report explicitly rules out small overrides of targets, which it says would be a recipe for "target drift".

The Treasury said yesterday that the report was an interesting contribution to what will be a lengthy debate on the future of the Bank and that Mr Kenneth Clarke, the chancellor, would not pass judgment before the debate was concluded.

Although Mr Clarke has given the Bank more freedom of action for attacking inflation, he made clear this week that he is not convinced that it should be independent.

Officials at the Bank pointed out that its priority is to achieve price stability, and independence will only be possible if the British people and parliament want it.

The next stage in discussions about the Bank will come with the publication of the TCSC's own report on its future, possibly before Christmas.

Independent and Accountable: a new mandate for the Bank of England. From CEPR, 25 - 28 Old Burlington St., London W1X 1LB, £6 or $9.95.

Turnover up at London exchange

By Norma Cohen, Investments Correspondent

SHARPLY higher turnover on the London Stock Exchange in the six months ended June 30 led to a 4 per cent rise in income to £98.1m from £94.5m the year before.

After costs, which include a £10.3m charge related to development costs of the system designed to replace the SEAQ price display system, the exchange's operating surplus was £8.6m, up sharply from a £1.5m loss the year before. The 1992 results included a £13.5m charge relating to the development of the now-abandoned Taurus paperless settlements system.

New equity issues raised £8.6bn in the period, more than double the level of the first six months of 1992 and settlement activity was 17 per cent higher.

Turnover in UK equities rose by 24 per cent to £268bn and overseas equities trading rose by 81 per cent to £296bn.

The exchange said that it expects its costs in the second half of the year to closely match its income, thus leading to a small surplus for the year as a whole.

Also, the exchange noted that its tax charge of £7m is disproportionately high in relation to the pre-tax surplus.

"This arises because a significant proportion of our expenditure is not allowed against current income for tax purposes," the exchange said.

It will only enjoy a reduced tax rate if sufficient taxable profits are earned in future years.

New powers sought to cut red tape

By Roland Rudd

THE UK Department of Trade and Industry is to receive sweeping new powers enabling it to repeal hundreds of regulatory measures without having to refer to parliament.

The new powers will be contained in a deregulation bill, to be announced in today's Queen's Speech – the traditional government announcement of proposed future legislation.

While the details of the draft legislation will remain under wraps until later next month, Mr Neil Hamilton, minister of corporate affairs, said the government planned to get rid of "hundreds of regulations" without seeking primary legislation.

In a recent interview with the Financial Times, Mr Hamilton, who is spearheading the government's deregulation initiative, said: "We are planning to clear out the accumulated dross of a number of bills without seeking primary legislation which would clog up parliament."

The minister made it clear that the DTI would have new powers to repeal by order statutory instruments, which allow ministers to make regulations without the specific order of parliament.

Mr Hamilton was scathing about many of the country's "mushrooming regulations" which he said had become an intolerable burden on business.

He also singled out the Financial Services Act, which underpins regulation of financial business activity in London, for having given rise to many non-statutory rules.

which involve the construction of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is to proceed.

In the Ukraine, unable and

and western nuclear scientists.

Mr Rémy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

economy, supplies of other fuels and other factors over which the nuclear industry has little control.

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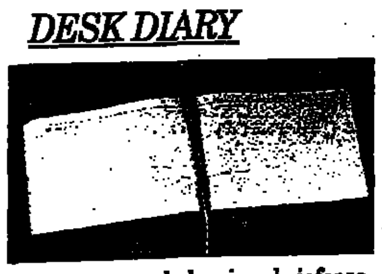

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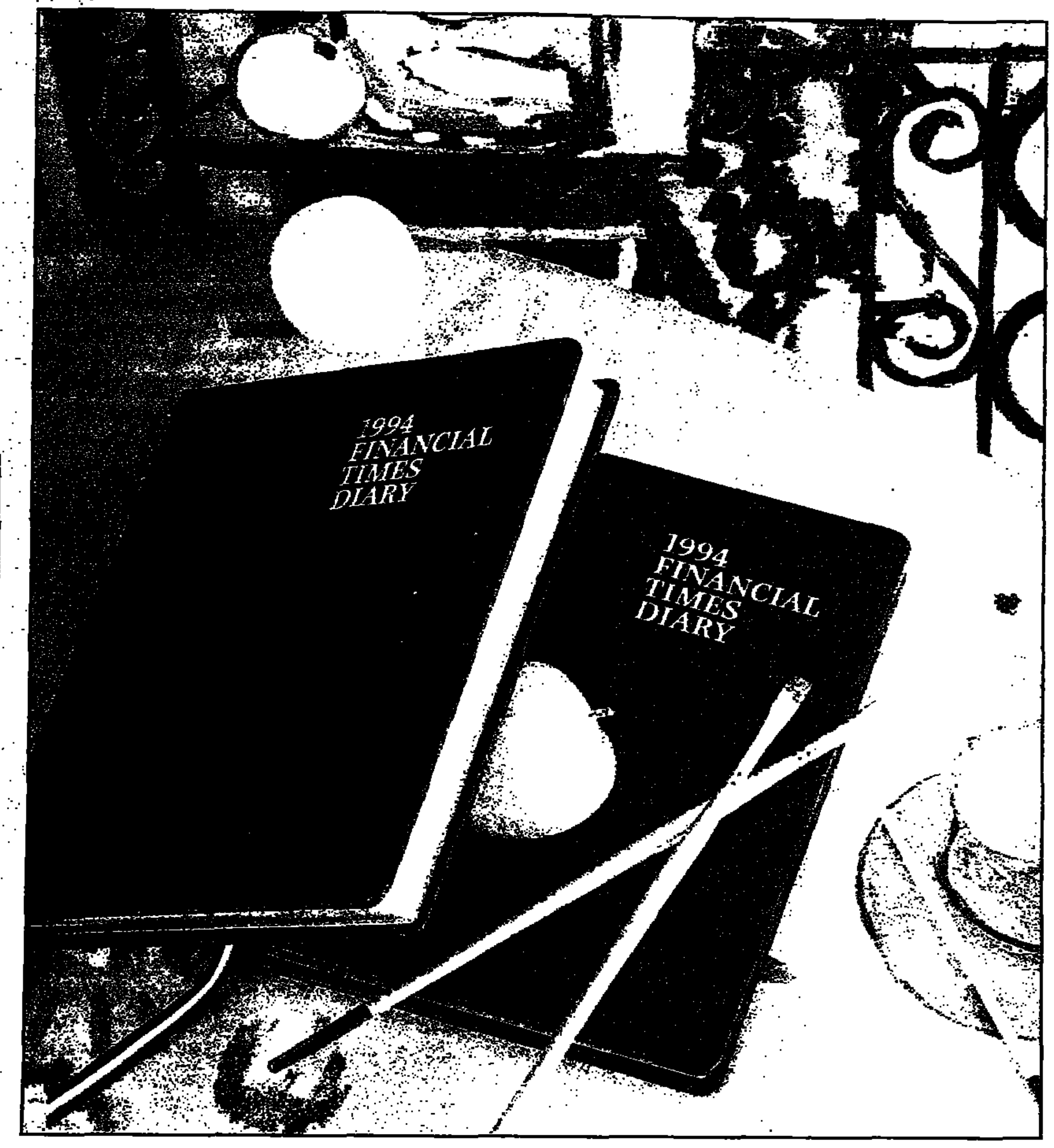

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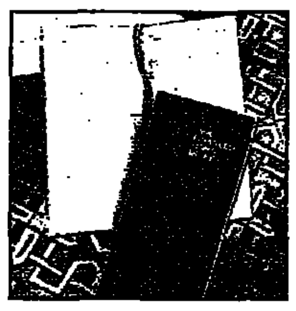

The FT Slimline Pocket Diary slips easily into your pocket. It has a fortnight to view format and is bound in black bonded leather with FT-pink paper and matching ribbon.

The UK information guide, London Underground, city and west end maps, make it ideal for the executive on the move.

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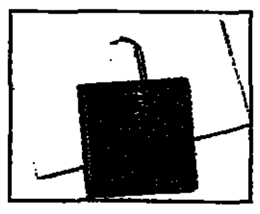

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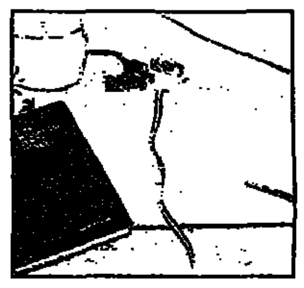

The FT desk diary is also available in a North American edition. It contains detailed information on no less than 62 domestic cities and full travel facts to assist you on your journeys. The North American version of the pocket diary, profiles 19 international business centres, perfectly complementing the desk diary shown. Both include personal phone directory and have a week to view format.

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Spring says UK 'crucial' to peace in Ulster

By Kevin Brown in London and Tim Coone in Dublin

THE IMPRESSION that progress towards peace in Northern Ireland is accelerating was reinforced by Mr Dick Spring, the Irish foreign minister, who yesterday warned that the British role was crucial.

Speaking at Johns Hopkins University in the US, Mr Spring said both governments had to accept that previous approaches to solving the problem have failed.

However, Mr Spring said there were "grounds for hope and encouragement" in Mr Major's speech on Ulster on Monday. He also praised the peace efforts of Mr John Hume, leader of the SDLP, who has tabled a joint peace initiative with Mr Adams.

Mr Spring said the Hume-Adams proposal "compels an urgent response from both governments. We must not become sidetracked into debate regarding partial and comprehensive approaches to the problem".

He added: "The question for both sides is whether the British position inclines to one side or the other, or is even-handed. The balance expressed in the British position is therefore a crucial factor."

Meanwhile Mr Michael Mates, the former Northern Ireland minister, rejected claims that he had talked to Sinn Féin, the political wing of the IRA, on the government's behalf.

Mr Mates was identified by a leading unionist politician as the previously unnamed envoy alleged to have talked to Sinn Féin earlier this year.

Sir Patrick Mayhew, the Northern Ireland Secretary, has bluntly denied that any contacts have taken place with Sinn Féin, other than talks on local issues with the party's elected representatives.

However, both unionist and republican political leaders continue to claim privately that contacts took place until just before the Ulster Unionist party agreed to support the government on a crucial Westminster vote on the Maastricht treaty.

Republican sources say that Sinn Féin was represented by Mr Martin McGuinness, the Sinn Féin vice-president, who is said to have close links with the IRA. Mr Mates, who resigned as Northern Ireland security minister earlier this year because of his involvement with Mr Asil Nadir, the fugitive Cypriot businessman, said the allegations were "black propaganda" put out by Sinn Féin. However, Mr Mates said it was possible that contacts had taken place between "freelances" who may have thought they were acting for the government.

International bidders in race for Heathrow link

By Andrew Taylor, Construction Correspondent

BRITISH, German, French and Japanese companies are among a string of international bidders for the main tunnelling contracts for the £300m Paddington to Heathrow rail link.

The privately financed scheme is to be built by a joint venture between BAA, which runs Heathrow airport, and British Rail. Japan's Export Import Bank (Exim) recently agreed a loan facility of up to £135m to help finance the project.

The tunnelling works will form the largest element in the £300m cost of the project. Taylor Woodrow the large UK contractor has been appointed overall construction manager for the 25km line.

The tender list for the tunnelling works comprises Balfour Beatty from the UK and five especially formed joint ventures involving a mix of UK and overseas companies.

The joint ventures are:

- Amec (from the UK) and Hochtief (Germany);
- Sir Robert McAlpine (UK), Taylor Woodrow (UK), Wayss & Freytag (Germany) and Bachy (France);
- Miller (UK), Tarmac (UK), Kumagai Gumi (Japan) and BEMO-NATM (Austria);
- Kier (UK), Murphy (UK) and Kunz (German);
- Nuttall (UK), Trafalgar House (UK) and Züblin (German).

Tunnelling for railway stations is highly specialised and there are only a small number of British and international companies with the expertise to carry out this work.

Nonetheless there has been criticism of the large number of foreign companies involved in consortia which have recently been awarded contracts on the Jubilee underground line extension in London.

Vauxhall threatens to impose single-union deal

By Robert Taylor, Labour Correspondent

VAUXHALL motor company, part of the US carmaker GM, is threatening to abandon its present joint negotiating agreement with the trade unions and introduce a single union deal for its 9,000 manual workers.

The company's American management is furious at the decision taken by the Transport and General Workers union to impose an overtime ban from today among its 2,000 members at the company's Ellesmere Port plant on Merseyside.

Voting has not yet been completed among Vauxhall's other manual workers on whether they favour industrial action in protest at the company's two year final pay offer of 2.5 per cent this autumn and 3.0 per cent plus 1 per cent lump sum in September 1994.

In a letter to the TGWU Vauxhall's personnel director Mr Bruce Warman questioned whether the union wanted to abandon the current joint union machinery with its move to launch an overtime ban at Ellesmere Port.

"If it is your intention that from now on separate union groups at each of our locations will take industrial action unilaterally without any co-ordinated or formal response to Vauxhall through the joint negotiating committee (JNC) then we on the management side must seriously question the role and need for a JNC", says Mr Warman in his letter.

The TGWU has told the company that the action is due to "unavoidable delays in collecting the information required by the ballot scrutineers" which prevented a co-ordination of the voting across the Vauxhall plants. Other unions believe the majority of the company's manual workers will accept the pay offer.

Britain in brief

Warders face prison strike ban

The government last night dramatically raised the stakes in a confrontation with the traditionally militant Prison Officers' Association, and will today seek a High Court injunction preventing it from taking industrial action. Mr Michael Howard, home secretary, will argue that, since prison officers hold the office of constable, industrial action involving breach of contract is outside employment law. The POA feels its future threatened by the introduction of privately managed prisons.

Insolvency may go private

Substantial parts of the work carried out by the government's Insolvency Service could be handed over to the private sector, according to a consultant's report submitted to the Department of Trade and Industry. The report, which was commissioned by the DTI in July from accountants Stoy Hayward, suggests that up to £42m of the £50m in annual work conducted by the Official Receivers' office could be privatised.

Bid to run bus, rail services

Stagecoach Holdings, the only company to have run its own service on British Rail, is to seek a ruling from the Office of Fair Trading on whether it may run bus and rail services in the same area. If the OFT does not give its approval, some of the bus companies considering bidding for a franchise to run trains on the privatised British Rail network may withdraw, Mr Brian Cox, managing director of Stagecoach's rail division, warned. "We don't want to put a lot of effort into bidding for a franchise and then find it has been referred (to the Monopolies and Mergers Commission)." Mr Cox said. "We will take a test case to the OFT. If it doesn't come out in favour several people will have to think again."

Mount Banking court action

The owners of Mount Banking, the small Asian-controlled bank in administration, have appealed against a ruling that vindicated the Bank of England's regulatory action against them. Mr Navinchandra Bhagwanji Shah and Mr Suresh Bhagwanji Shah have lodged a notice of appeal in the High Court to object to the decision of the Banking Appeal Tribunal last month to uphold the Bank of England's action.

Trade case over German guns

A gunsmith, Mr John Slough, has been given permission by a court to sue Mr Michael Heseltine, the President of the Board of Trade over restraint of trade. Mr Slough is seeking £300,000 for loss of sales, alleging that the Department of Trade and Industry blocked exports of sporting guns to Germany. The case arises because of confusion over new EC documentation.

Printing pay round returns

National pay bargaining is to resume in the printing industry in 1994 after a year's suspension, it was announced by the printing employers federation and the GPMU the print union. The decision represents a clear climbdown by the employers federation.

Right number at last . . .

Council officers in southern England took 32 years to reply to a man who wrote asking what number to put on his house. His children left home during the interval and he had named the house Sunnyside. A Fareham council spokesman said: "It is something we have only just got round to. These days we try to respond quicker than that."

itself

NB POWER

which involve the construction of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is to proceed.
In the Ukraine, unable and

and western nuclear scientists.
Mr Rémy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

economy, supplies of other fuels and other factors over which the nuclear industry has little control.

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MANAGEMENT: MARKETING AND ADVERTISING

Dangerous liaisons

Celebrities can bring instant fame to a brand, but they can also fall from grace. Diane Summers reports

Ten years ago Roger Enrico, then president and chief executive of Pepsi-Cola, was talking excitedly to the company's chairman, Don Kendall. "There's this young fellow Michael Jackson. He's a singer and he's very, very hot. And we think we can get him – and his brothers – to be in our advertising.

"I've had them checked out. The reports came back *sterling*. These people haven't been near alcohol, much less drugs. They're very religious. Very family-oriented. They're not political. I see very little chance of embarrassment for us here."

If Enrico were this week to re-read his words, contained in his 1986 account of the war with rival Coca-Cola, he would surely blush. Over the past few days Pepsi has pulled its multi-million dollar sponsorship of the star's "Dangerous" concerts as Jackson has abandoned his world tour because of addiction to pain-killers and stress caused by allegations, strongly denied, that he sexually molested a 14-year-old boy.

It is not the first time a celebrity has turned into a marketing nightmare: Pepsi has already abandoned commercials in the US featuring pop star Madonna after a furore over a video; the actor Burt Reynolds' divorce petition became an embarrassment to advertisers; and sportsgear endorsements halted abruptly for "Magic" Johnson, the basketball player, when he announced he was HIV positive.

But far from becoming fed up with the extraordinary fees that stars demand for their endorsement of products – and the danger that if a celebrity goes off the rails the brand may go with them – the trend, if anything, is towards the increased use of big names.

Kenneth Miles, director general of the Incorporated Society of British Advertisers, sees the use of celebrities as an extra weapon on a battlefield where differences between brands are not always apparent. The value of using stars has been proven, he claims, particularly when it comes to getting through to young people. Instead of personalities being employed solely in advertisements, they are increasingly being integrated into all aspects of a marketing campaign.

Chris Powell, president of the Institute of Practitioners in Advertising and chief executive of agency BMP DDB Needham, says using a celebrity can have the benefit of giving instant fame to a product but "the ever-present danger is that it can blow up on you".

As Mike Walsh, Ogilvy and Mather's London chairman puts it, one of advertisers' greatest fears is that "the celebrity becomes the hero, rather than the product they're marketing". An example repeatedly mentioned in the industry is the series of advertisements for Cinzano, featuring actors Joan Collins and Leonard Rossiter. Some people believe the characters so dwarfed the product that consumers may have had trouble recalling the brand.

If the identification of a star with a product is very strong it can also make brand development difficult, says Tom Brannan, a vice-chairman of the Chartered Institute of Marketing and a director of agency Primary Contact. The weening process may need careful thought: for example, when Sony needed to move away from using John Cleese in its ads, it used the "ingenious" interim device of a robot-style figure which resembled the actor, says Brannan.

Personalities, meanwhile, cannot be guaranteed to be the best ambassadors for the products they are paid to promote – contracts therefore need to specify the standards expected, says Powell. The magazine Marketing cites examples of the "kind of situations that make ad agencies weep": model Jerry Hall saying she used Bovril to clean her boots; Paul Gascoigne, the British footballer and then Brut man, denying he wore aftershave, and English cricketer Ian Botham calling Dansk low-alcohol lager "gnat's piss".


Michael Jackson, the dream celebrity has become a marketing nightmare

Clean, but not so squeaky clean to be boring, seems to be the maxim for selecting a celebrity. That most desired attribute of all when marketing to the young – street credibility – was gained by the former sick-bed drink Lucozade when it started using the Olympic athlete Daley Thompson to promote the brand. Thompson's irreverent streak definitely helped, says Walsh, whose agency created the ads.

However, sporting personalities bring their own problems. Says Miles: "They do have a high wear-out rate," although, carefully chosen, their promotional value can outlast their ability to win medals. Michael Jordan, the basketball player, earned about $32m (£23m) last year, according to Forbes magazine, from promoting a range of products including Nike shoes. He will continue his activities in retirement, even if the ads are modified to take account of his less-active status.

One tip from Dominic Mills, editor of the UK advertising weekly Campaign, is to spot a celebrity early: "If you get them before they're really famous you can ride on their back." It is also possible, presumably, to benefit from less-inflated fees. Actor Paul Hogan's link-up with Foster's is a good example, says Mills. Hogan only moved from cult to mass-market status with *Crocodile Dundee*, which came after the first Foster's ads.

In selecting a celebrity, says Brannan, it is also very important for companies to analyse which values they are trying to build into their brand. For example, Sir Robert Mark, the former UK Metropolitan Police commissioner, is a good choice to promote the trustworthiness of Goodyear tyres. Beware, says Powell, loose connections between celebrities and brands – "borrowed interest", as he calls it.

That close fit is exactly what Pepsi had for a number of years with Jackson. Jay Coleman, an arranger of deals between rock stars and corporations, brought the idea of Jackson to Pepsi. As reported in Enrico's book, Coleman says as part of his sales pitch: "Cars, liquor – for a dreamy, clean-living kid like Michael, these make no sense. He needs a product that's soft, cuddly, harmless and fun. And that's soda."

And that, even if every letter of advice from the experts is followed, is celebrities – potentially high rewards, with the inevitable high risks to match.

The solution to the puzzle which appeared on this page on November 4 is that each of the four words contained the name of an animal.

A little luxury goes a longer way

A demand for durable products has replaced the throwaway ethos of the 1980s, writes Alice Rawsthorn

The Sultan of Brunei recently spent an agreeable afternoon shopping at Tiffany and treated himself to a $70,000 (£50,000) trinket.

The sultan must have been a welcome sight at the Manhattan store which, in common with the rest of the luxury trade, has had a tough time recently. The industry is still under pressure as illustrated by the recent takeovers of Gucci, the Italian leather company, and Yves Saint-Laurent, the French fashion house. But the situation is improving as the global economy edges towards recovery. The surviving companies must adapt their marketing strategies to meet the new demands of the luxury market after the recession.

During the 1980s, the dominant theme in the luxury business was expansion, as new customers entered the traditional markets of Europe and North America and Japan emerged as a dynamic new market for expensive western goods. Whereas the industry's old customers had preferred to pay more for products which were distinctive – either because they were made in limited editions or designed to particular specifications – all that the nouveau consumers wanted were instantly recognisable status symbols.

The most successful luxury products were the obvious ones: Chanel suits with tell-tale double Cs on the gilded buttons and Louis Vuitton luggage emblazoned with LV initials.

The recession has weeded out some of the nouveau consumers and reshaped consumer taste after the ostentation of the 1980s. "People show off less than they used to," says Françoise Jollant-Kneebone, design director of Louis Vuitton, the French luggage house. "They're still prepared to spend a lot of money on an expensive product, but only if they're certain that it is of really high quality and that it will last."

The most successful companies of the early 1990s are those that have recognised these changes. Hermès of France has prospered by sticking to its specialist niche at the top of the market with its 135 scarves and 1,970 hand-made bags: as has Asprey, the British concern, that has turned its Bond Street store into the gift shop for the world's super-rich.

"This business is all about scale," says Peter Wallis, director of SRU, the London-based management consultancy. "It's perfectly possible for people to operate successfully in luxury goods today, but they have to accept that there are limitations to the size of the market."

Hermès and Asprey have acknowledged the constraints.

> **"It's perfectly possible for people to operate successfully in luxury goods today, but they have to accept there are limitations to the size of the market"**

Hermès plans to continue to expand the international network of shops that fuelled its growth in the 1980s: but Jean-Louis Dumas, chairman, has said the pace of openings will be slower in the 1990s.

Naim Attallah, group chief executive of Asprey, is adamant that he will not expand the original Asprey company. "It's a very special business," he says. "If we opened Aspreys all over the world, we'd risk ruining it."

The luxury companies have had to adapt their product ranges to meet the new demands of the 1990s. The backlash against the "throwaway" ethos of the 1980s means people are buying fewer expensive items, but are prepared to pay more for them if they are convinced they will last.

Jollant-Kneebone says fewer of Louis Vuitton's customers "come back to buy a new bag every six months", but there has been a sharp increase in sales of customised luggage, which is often more expensive than standard lines.

In design terms this has triggered a shift towards classic styles which will not date. The focus of fashion has swung from the glitz of Chanel to the subtler looks of designers such as Jil Sander in Hamburg and Prada in Milan, which have both expanded despite the recession.

The change in taste is already reflected in luxury advertising. The glossy advertisements in Vogue and Vanity Fair now tend to dwell on exclusivity, craftsmanship and the long history of their companies, rather than the materialistic imagery of the 1980s.

Service is an increasingly important component of luxury marketing as consumers demand more reassurance about the quality and durability of the products they are buying. "Our customers are more discerning," says Attallah. "We must make sure our staff are properly informed about everything in our range."

Repairs and renovation are also expanding. Customers of Cutler & Gross, the London optician, can calm their ecological consciences by paying £25 to have their sunglasses reconditioned, rather than spending £70 on a new pair.

The financial strains on the luxury business are now easing as the US and UK come out of recession and the growth of the emerging Asian economies – South Korea, Taiwan and, most recently, China – compensates for the weakness of Japan. But no one expects the industry to return to the heady growth of the 1980s and the themes of exclusivity, high quality and sophisticated service are likely to dominate luxury marketing into the 1990s.

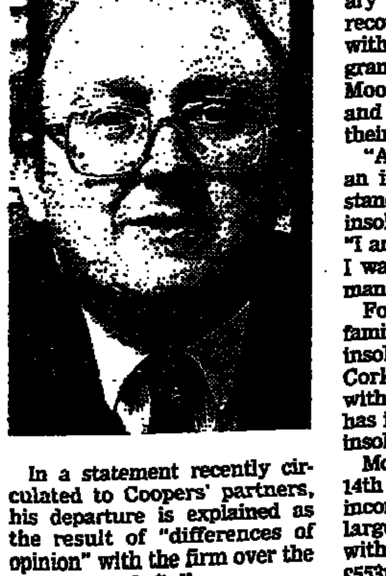
"A lot of people in the 1980s thought that this business was all about marketing in the conventional fast-moving consumer-goods sense," says Wallis of SRU. "It might have been at the time but it certainly isn't now. It's about developing a brand with a clearly-defined market position."

PEOPLE

End of an era for insolvency name

Roger Cork is severing the last remaining family links between the famous insolvency firm Cork Gully and Coopers & Lybrand, with which it merged in 1980.

Cork, below, who is the son of insolvency doyen Sir Kenneth Cork and grandson of W H Cork, founder of Cork Gully, is leaving his position as a senior partner with Coopers to join Moore Stephens.



In a statement recently circulated to Coopers' partners, his departure is explained as the result of "differences of opinion" with the firm over the future of Cork Gully.

Coopers has been gradually playing down the status of Cork Gully. In the last few months it has been dropping the firm's name from many of its activities.

Cork Gully is now used primarily in liquidations. In other insolvency work, Coopers believes the name has a destructive connotation, when much of its work is connected to companies which can be salvaged.

Cork, who has worked at Cork Gully for 24 years, will join Moore Stephens in January to lead its small corporate recovery practice. He trained with the firm in 1965-69. His grandfather and the founder of Moore Stephens were friends and simultaneously founded their respective firms.

"Although Moore Stephens is an international firm of some standing, it has a very small insolvency division," he said. "I am very sad to be going but I was at loggerheads with the management."

Four generations of the Cork family have been involved in insolvency work. One of Roger Cork's cousins is a partner with Booth White, whose son has in turn just qualified as an insolvency practitioner.

Moore Stephens is the UK's 14th largest firm with total fee income of £42m. Coopers is the largest firm in the country, with fee income last year of £553m and insolvency income alone of £73m.

Willis Corroon bags Schreyer

Willis Corroon group, one of the world's foremost insurance brokers, has appointed William Schreyer to its board as a non-executive director, with immediate effect, and simultaneously see the retirement of another non-executive, Arthur Vorys, who has been on the board since 1990.

Schreyer, right, 65, retired earlier this year as chairman and chief executive of Merrill Lynch, where he had been since 1948. His first post with Merrill was as a management trainee, but over the decades he held many posts with the company, reaching the peaks of first president and chief executive in 1984 and then chairman in 1985.

Besides his new non-executive role with Willis Corroon, Schreyer is a director of Schering-Plough and is vice chairman of the New York Stock Exchange. Moreover, he acts as a special financial adviser to the Vatican in Rome, a Papal appointment.

He takes an active interest in international relations, being affiliated to the Centre for Strategic and International Studies and the Council on Foreign Relations, as well as academic life, through his position on the board of trustees of Pennsylvania State University.

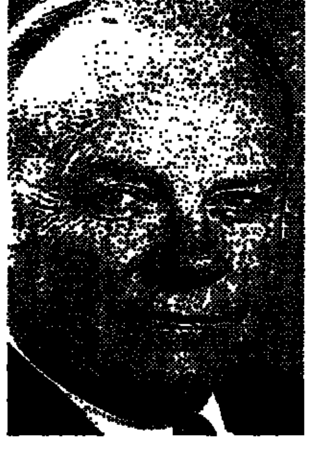
Other non-executive appointments:

■ James Browning, a general manager of the Bank of Scotland, at BANK OF WALES; Archibald Gibson has retired.

■ David Baarda, owner of John Baarda which grows tomatoes and cucumbers, at SALADS ETCETERA HOLDINGS.

■ Adam Lee, chairman of Unison and a former head of RBS's private banks, at MINMET.

■ John Kemp-Welch, joint senior partner of Cazenove &



Co, at MARTIN CURRIE and as chairman of LOWLAND INVESTMENT COMPANY on the resignation of Raymond Cazalet who has also resigned from LAW DEBENTURE CORPORATION.

Work for economist

Despite his periods at Essex University and the London School of Economics in the late 1960's, James Robertson's career has taken a most unrevolutionary path as a civil service economist.

This is just as well because on Monday he will take over as the new chief economist at the Employment Department. Robertson replaces Pam Meadows, who has left to become director of the Policy Studies Institute.

Robertson, 44, joined the civil service as an Employment Department economist in 1975.

He has since worked in the Department of Energy; headed the Regional Economics Branch in the DTI; and after a brief spell in the Department of Transport he rejoined the DTI as head of Industrial and Regional Economics and Statistics.

His promotion to under secretary, with a staff of 100, will not come as a surprise to people who have worked with him. "He has always seemed a young man in a hurry", says a colleague.

And there may be some political logic to his move, in the light of continuing discussion of a merger between the DTI and the Employment Department.

"I welcome the opportunity to draw closer links between the two departments. You cannot look at labour markets in isolation from product markets," says Robertson.

Bett heads quango

When Michael Bett announced earlier in the year that he would fulfil his role as deputy chairman of BT in a non-executive capacity, he said that he wished to spend more time on community and social interests.

His new appointment as chairman of the government's Social Security Advisory Committee from January 1 will fill around one day a week in his diary.

The committee advises the secretary of state on social security matters other than industrial injuries, war pensions and occupational pensions.

Most social security regulations must be submitted to the committee before they are made.

Bett, who is also chairman of Cellnet, was previously managing director of BT and personnel director of the BBC.

In January, Bett, 58, was pipped at the post for the chairmanship of Acas, the government conciliation service.

He will be well-placed to pick up signals from social security claimants when things go wrong with benefits: since 1985 he has been Chairman of Bromley Citizen's Advice Bureaux.

He recently became chairman of Save the Children Fund and president of the Institute of Personnel Management.

Bett replaces Sir Peter Barclay who is retiring after nine years as chairman.

TECHNOLOGY

Virtual reality is taking off in the games field, but its impact on industry has so far been limited. That is now set to change

Artificial look into the real world

To most people, virtual reality means video games and entertainment arcades. The idea of using the technique – in which three-dimensional surroundings are created by computers for viewing on headsets or desk-top terminals – has hardly penetrated beyond the leisure industry.

But manufacturers are turning increasingly to this artificial, 3-D world for help with the design and development of new products. The virtual reality research programmes run by universities and other research centres have attracted a number of companies, including Caterpillar, the US manufacturer of earthmoving equipment, and two UK groups, Rolls-Royce and VSEL (formerly Vickers Shipbuilding and Engineering).

The potential of VR for helping business and cutting costs was demonstrated in the Netherlands earlier this year when the Calibre Institute at the University of Eindhoven developed a system for construction companies. It enabled prospective house buyers to "walk through" new homes at a greenfield site before they had even been built. An increase in sales was reported while VR was in use there.

Caterpillar has based its research work at the National Centre for Supercomputing Applications at the University of Illinois. Much of the work is experimental, but the company is using stereo glasses and full-immersion headsets to develop operator cabs for backhoe loaders and wheeled shovels.

"We use the system as a design tool to check operator visibility and evaluate performance of design," explains Richard Ingram, Caterpillar's manager of university relations. He is guarded about the financial savings that Caterpillar expects, but compares VR's possible impact with the way spreadsheets and personal computers revolutionised the accountancy profession.

Lost in an artificial world: immersion in virtual reality stimulates the brain with new images but there is concern that it may also distort perception in the real world

"It can take from six months to a year to design and build a prototype vehicle. With virtual reality, we can put a new design into the lab in a week," he says. Caterpillar invites digger operators to the centre's laboratory where they sit in a conventional cab seat wearing a headset.

Immersed in a virtual world, they can glance outside the virtual cab and watch the machine's bucket rise and fall as they control it with real levers. Functions, however, are kept simple, dictated by the speed at which computers can display the movements in real time. If the operator dislikes one cab, an alternative design can be called up.

In the UK, a close-knit community of universities and small research companies is now starting to attract support from industry. "Virtual reality is not yet a finished production tool. And even though basic systems cost around £40,000, companies will initially prefer to work with centres of excellence," says Seamus Morley, sales manager of Division Group, a leading UK-based supplier of VR systems for industrial applications.

Division has sold more than 50 fully immersive systems worldwide and a few weeks ago shipped what it describes as the world's largest commercial VR system to Matsushita Electric in Japan. Valued at some $500,000 (£331,000), the system will enable three people to share the same virtual world.

Coventry School of Art and Design, part of Coventry University, purchased a VR system in March. It is now collaborating with companies such as Ford, Rover and Motor Panels, the truck cab specialist. "We're using virtual reality for design evaluation and interaction," explains David Pryce-Evans, project researcher. The aim is to enable vehicle designers to see and interact with a full-sized car without going to the expense of building one.

The next step is to expand the breadth of interaction, says Pryce-Evans, and move into consumer products such as kettles and cameras. Rolls-Royce and VSEL are among a number of companies which have joined a research programme run by Advanced Robotics Research, a company based at Salford University.

Rolls-Royce, which joined the programme in July, wants to convert computer-aided design models of its Trent high-thrust aero-engine into real-time VR images. "The aim is to put engineers next to a virtual rather than real model of the engine," explains Robert Stone, technical manager of Advanced Robotics.

Rolls-Royce says it has been interested in VR for a year and believes there will be a "clear financial pay-off" if the system proves to be a practical tool. VSEL has been using advanced three-dimensional Cad modelling with full-sized and one-fifth scale models of submarines for eight years. Now, it wants to eliminate the real models and allow engineers to "enter" virtual submarines for design verification.

Despite an impressive membership list which also includes ICI and British Nuclear Fuels, Stone says he is concerned at the "apathy" shown by much of industry. "The UK is leading the way in VR research, but people still see it as a computer game; there's too much hype from the leisure industry," he says.

He admits that introducing VR to manufacturing industries will not be easy. The technology is still relatively expensive and the clarity of images comparatively poor.

A new convert to virtual reality is the supermarket sector. Britain's Co-operative Wholesale Society recently joined the programme run by Advanced Robotics. Its corporate technology department is keen to have a virtual supermarket so it can study customer flows and space planning. Presumably, though, it will stop short of virtual customers and virtual profits.

David Traherne

Advice on some burning issues

When Mike Lyons speaks about the buildings he sets on fire, you could be excused for thinking that he is a pyromaniac. Fortunately, the buildings and the fire's victims only exist on a computer's virtual reality program.

Lyons is general manager of Colt Virtual Reality, set up by the UK ventilation and environmental control group to provide advice for architects and builders. Colt uses VR to study the movement of people in and around buildings, ships and tunnels.

Lyons says there is a tendency to make simple assumptions about people's behaviour.

"Suppose you have a store with 100 people in it, and exits at the front and back. If there's a fire, it is traditionally assumed that 50 will go out through the front and 50 through the back."

A better understanding can be obtained by using a VR database to create individuals based on the psychology and behaviour of real human beings. These are then in the building when the blaze starts.

Allowance is made for the elderly moving more slowly, parents stopping to collect their children and individuals whose curiosity or bravery sends them against the flow to find the source of the blaze.

With random elements included, the sequence is run up to 100 times and the evacuation time established. When changes are made to the building design, the process can be repeated.

Such studies can show surprising results. In one minute, about 120 people can push through a doorway of the standard 74cm width. But if that is increased by 20cm, almost twice as many can leave in the same time.

London's planned £2bn Crossrail project will be designed with the help of Colt VR, which has been brought in by British Rail and London Underground to help with station design for normal use and emergency evacuation.

Graham Clayton

Russians show their mathematical might

Virtual reality can be bad for you. It can disorientate the brain and make it hard to readjust to the real world.

This is the view of Bill O'Riordan, a professor at Imperial College, London, and head of advanced research at ICL, the UK computer group owned by Fujitsu of Japan. He believes the creators of virtual reality have made a fundamental error by failing to base their world on the laws of physics.

Yet he is confident a solution can be found – in Russia, where software experts bring a mathematical scrutiny to bear on computing problems that contrasts with the west's more pragmatic approach.

Central to O'Riordan's concern about VR's dangers is the belief that inaccurate representations of the real thing can retune people's minds to a false set of rules. Those who spend too long immersed in a computer environment – especially with a headset – can emerge confused. They may not realise it, but their brain may have been reprogrammed. What happens when they are behind a car wheel? How do they know their reaction times have not been subtly altered?

O'Riordan's conclusion is that the laws of physics and mathematics are being simplified, even ignored. He has several criticisms: if VR objects move at all, they follow pre-determined paths; their interaction with other objects is often not taken into account; scaling is inaccurate; and the use of shading often bears little relationship to the light source.

"The west is making a big mistake in failing to base much of its technology on sound mathematical principles. VR is perhaps the most serious example." To help put this right, he has organised talks between ICL and top scientists from the former Soviet bloc.

Because it was isolated by the iron curtain, Soviet computing followed a different path of evolution – one firmly rooted in mathematics – from that of the west. The result was highly developed skills in programming and algorithms, the building blocks of computer language.

Western computer companies, by contrast, were able to throw money and sophisticated hardware at problems, and became "seduced by graphics" as they strove to make more user-friendly products.

"The computer games boom is partly to blame," says O'Riordan. "We have been bombarded by 'virtual worlds' created on the PC, although the complexity of recreating reality is such that no PC can yet handle it."

He finds proof of Russian expertise in the country's military and space technology. He is not alone in his views. David Hughes, a professor at the University of Plymouth who chairs the British Computer Society special interest group on computer-aided design, has also worked with institutes in Russia and Ukraine.

"Their work is mathematically-based, and despite very low levels of technology, their programming skills are formidable. They have been able to get far more out of low-power systems than we would have believed possible."

The Russian mentality may be a result of 50 years of political repression, says Doron Swade, senior computer curator at the Science Museum in London, because anything which had a practical application was centrally controlled. "The only way they could escape the controls was to embrace the abstract."

The Science Museum put ICL in contact with the Institute of Informatics Systems in Siberia, which led to the first talks last month. O'Riordan was enthusiastic. "The Russians know how to make a machine sing – their programming doesn't waste a bit or a byte," he says.

Jonathan Constant

Concert

Fine tuning

A pretty label for a very good concert of microtonal music – *i.e.* music that employs some non-standard intervals between notes, smaller or larger than our "equal-tuning" system accommodates – which was what James Wood gave us in the Queen Elizabeth Hall on Monday, with his New London Chamber Choir and an ensemble from his Centre of Microtonal Music. (They are touring this concert, for the Arts Council's Contemporary Music Network; see below.)

Microtones include, for example, "blue notes" in jazz, but also certain notes in various folk-music scales (or modes, or Indian *raga*) that are too sharp or flat to be represented on a modern pianoforte. In the "Fine Tuning" programme, every piece either had pre-tuned instruments or used microtonal slides for colouristic effects.

Kevin Volans' 1982 suite *White Man Sleeps* plays the ethnic card, with its two harpsichords and its viola da gamba, a sort of cello with frets, pre-tuned to African *modes*. For some time, that seems to be the only piquant thing about its gentle dances; but a gamba solo with soft drums develops more inwardly, and later the composer begins to invent rhythmic patterns and counterpoint beyond anything in the original material. "Unacceptably Germanic," he now thinks (he wrote the suite while studying with Stockhausen in Cologne) – but without those twists the piece would be little more than a curio.

Yliam for ten female voices, by the eccentric recluse Giacinto Scelsi (1905-88), explores the disconcerting effects of microtonal slides within sustained, almost motionless harmony. It freezes one's attention for its six minutes. For a dozen mixed voices, the 1968 *Nuits* of Iannis Xenakis is a dramatically varied cry of painful sympathy for political prisoners; as often with Xenakis, the raw punch that it packs overwhelms any doubt about whether it is *music*, exactly.

Jonathan Harvey's recent *Valley of Aosta* (after an apocalyptic Turner canvas) conjures up wild aural vistas, using its microtones – pre-tuned on harps and synthesisers – to misdirect any ear hoping to find a clear harmonic path through the music. We surrender to the radiant, mercurial colours. Through them, the two synthesisers cast sharp-focus streams of bright, even notes – but they are tuned a quarter-note apart.

Wood's own *Phainomena*, premiered a year and a half ago but much revised last summer, earns its right to serve as climax for the programme. Though he is a prolific composer as well as conductor and percussion virtuoso, Wood's earlier pieces have been distinguished chiefly by ingenuity and eclectic resource. The extreme, pungent contrasts in *Phainomena* are theatrical as could be – but dramatic *music*, not music-theatre. It sounds like a composer discovering his own cogent means to a strong, original purpose, rich and strange.

David Murray

Further performances Oxford 19th, Leicester 20th and Huddersfield 21st

Cinema/**Nigel Andrews**

Catch the magic carpet

The Disney company may be in trouble in Europe, where the once-roaring mouse now squeaks in terror at its quarterly bank statements. But in America, corporation and rodent have ridden high throughout 1993, mostly on the back of a single film *Aladdin*. Disney's new animated feature has outperformed last year's *Beauty And The Beast* to become the highest-grossing cartoon feature of all time.

Why? How? What is happening? Ten years ago paint-and-brush animation was pronounced dead or dying by many observers, including, I regret to say, me. The art had been hounded to an early grave – we all said – by such new pretenders as modelwork, animatronics and computer graphics.

Now look at the blushes on our faces. *Aladdin* has been the year's second favourite film after That Dinosaur Movie and a mere five minutes in your seat will tell you why. Having seduced us with romantic traditionalism in *Beauty And The Beast*, Disney now turn 180 degrees and go for comedy mixed with high kitsch. The decor in *Aladdin* is out of *Kismet* via *The Thief Of Baghdad*. The characters are spoofy and (post)modern: led by a Tom Cruise-like Aladdin and a Robin Williams-voiced genie with a genius for mimicry. And the pace is so fast, so sure, that British Rail should take a look at Disney's Advanced Passenger Carpet as a serious potential design model for 2002.

The story, we know, is simple enough to suit the breakneck pace. Boy meets lamp; boy rubs lamp; boy, after minor setbacks, is helped by lamp to girl of his dreams. All the film's directors John Musker and Ron Clements need do is follow the narrative arrows. We begin with melodrama, mugged with a marvellous opening conceit: the "cave" is the mouth of a giant sand monster and Aladdin is chased from its innards by a roaring, bilious spume of lava. Further metamorphic fun is sketched in by the villain Jafar and his staff that becomes a cobra. Then Robin Williams's genie arrives, seizing the spotlight, the microphone and the movie's transformation franchise.

ALADDIN (U)
John Musker, Ron Clements

THE MAN WITHOUT A FACE (12)
Mel Gibson

THE STRANGER (U)
Satyajit Ray

SO I MARRIED AN AXE MURDERER (12)
Thomas Schlamme

POSSE (15)
Mario Van Peebles

THE STOLEN CHILDREN (15)
Gianni Amelio

Williams's performance is less a star turn, more a one-man galaxy expounding its chaos theory of comedy. When one inspired routine burns out, another flames up to take its place; all in nanoseconds rather than light years. The demented tinkling of an air stewardess's voice; Peter Lorre's feline murmur for a line of necromantic apology ("I can't bring people back from the dead!"); here some Robert De Niro, there again some Jack Nicholson. And the vocal gymnastics are matched by visual. The Disney artists swish their scene-stealer through all the lighting likenesses his voice invokes, calling on the latest computer technology to do so.

At times the movie's modernist attack can feel like assault and battery. The princess, in keeping with feminist writ, is less a shrinking violet than a ballbreaking career girl: I have met her kind behind many a Hollywood executive desk. And as for Jafar's parrot Iago – need it be *quite* so deafeningly vaudevillian in its locutions? "Oh dat's a big surprise! I tink I'm gonna die of surprise!" etc.

But why are we complaining of too much energy from a studio that not long ago, after Walt's death, seemed to be slipping into irreversible coma? *Aladdin* and *Beauty And The Beast* prove there is undreamt-of life both in Disney and in the art of feature animation. And we have not even mentioned the songs. Music by Alan Mencken; lyrics by Howard Ashman and Tim Rice; and my favourite was not the Oscar-winning "A Whole New World" but the preposterous, elephant-swaying, over-the-top, out-Intoleranceing-*Intolerance* "Prince Ali." Take the children, buy a sack of popcorn, enjoy.

Half a Mel Gibson is better than no Mel Gibson. But *The Man Without A Face*, directed by Mr G, shows how stars do like to put their own charisma through the mincer whenever they get behind the camera.

"Pizza face!". "Hamburger head!" – these are among the friendly sobriquets lobbed by local children at the reclusive ex-schoolteacher with the burn-ravaged features (Gibson) who lives in a sea-washed mansion in Maine. Turn our hero to the right and we get a perfect Mel profile. Turn him to the left and we get Elm Street squishiness. Ergo: it takes no small act of courage for fatherless young Chuck (Nick Stahl) to approach old pizza-face and request some tuition for his military school entrance exam. He does not tell mother (Margaret Whitton); for, good heavens, what would she think? Especially since the man is suspected of having molested a boy years before, just prior to his scarring car crash.

Can you think of an odder choice for a movie star's directing debut? Then you have not followed the fashion in these things. Film idols, when they become film makers, *love* to deface or deprecate their own glamour. (See Eastwood giving us wrinkles-and-all in *Unforgiven*). It shows that they are serious artists not just pin-ups. Gibson's film, though, never feels focused enough to offer either serious art or serious image-critique. Apart from some vague tut-tutting at small-town gossip and vaguer support for persecuted sexual minorities – Mel's mystery-man *may* be gay, even if he is unjustly suspected of abuse – the movie swills around in a soft stew of buddyism and surrogate-parent sentimentality, varied by the odd morsel of red-herring Gothicism.

How we distrust those we do not know. This is the theme for the week's live-action movies. *The Stranger* is Satyajit Ray's last film: sedentary, even sciatic in its staging, but grace-touched in its mastery of faces and feelings. Is the long-lost uncle (Utpal Dutt) who hoves in view to reclaim a long-waiting bequest an impostor or not? And how can Mr and Mrs Middle-Class Calcutta Couple, the supposed relatives with whom he stays, find out without being rude?

Like all Ray's late films, this one features characters stuck as if by superglue to the ancestral armchairs. Occasionally, stiffly, they rise to walk about the room. And always they talk. But do not expect songs, knees-ups or *Aladdin*-ish packing. What you get is a subtler dance of bewilderment: a soft-shoe shuffle of the soul, a grand old image-choreographer laying out steps to prove that in this world Nobody Really Knows Anybody.

Can you even know that your newly-wedded bride is not a serial killer? Mike Myers, *aka* Wayne of *Wayne's World*, has this problem in *So I Married An Axe Murderer*. High-street butcher Nancy Travis seems so pretty, so nice... Yet her CV *does* seem to correspond with that of the multiple murderer headlined on the front page of the tabloid rag Myers glimpses in his scandal-hungry parents' kitchen.

This is Hitchcock's *Suspicion* with swapped sexes and often very funny, not least when it allows an irrelevant riff to get going. I loved Alan Arkin's cameo as a kindly police chief begged by his officers to be louder and more brutal. (They have seen too many TV cop shows.) As for Myers, his moon-faced sincerity and permanent state of attentive wonder – the candour of the apprentice lunatic – suggests there is mileage in this actor's mock-innocence even after he has finished with *Wayne's Worlds 1, 2, 3, 4, 5...*

Oh that Myers had wandered debunkingly, a Candide for our age, into the cumbrous landscapes of *Posse* and *The Stolen Children*. The first is a black Western spurred towards pretension by director-star Mario Van Peebles (of *New Jack City*): much racial sermonising, much sculptural posturing in the mise-en-scene. Gianni Amelio's *The Stolen Children* is a sentimental, prize-laden Italian film about two siblings orphaned by the law. Carted off towards a care home from delinquent Momma – she had put the 11-year-old girl into prostitution – they pal up with their young escorting officer. Result: tender, truant wanderings across Italy as humanity begins to glow through the trio's sullen armour. The idea intrigues; the execution is a touch maudlin and more than a touch longwinded.

'Aladdin', Disney's highest grossing cartoon yet: comedy mixed with high kitsch, all at breakneck speed

Musicals

Mae West: I'm No Angel

"I feel like a million – but one at a time." Who else? Had Mae West not invented herself, someone else would have concocted her. When I heard that *I'm No Angel* was a Mae West musical, I imagined one of those biography-with-songs shows – and feared the worst. As it turns out, *I'm No Angel* simply focuses on Mae during her 1948 season in London. She admits to 45; is discussed by journalists as 55 (but as looking 40) and is actually 57. She has her loyal old manager (Gordon Sterne) in tow (who may once have been the only man she truly loved) – and, while in London, she has an affair with an 18-year-old boxer (Paul McNeilly) and also starts a friendship with a 55-year-old nun (Philippa Urquhart).

The boxer and the nun – both, I guess, fictitious – respectively draw out the flesh and the spirit in our Mae. Not that her flesh and spirit clash with each other; the author of *I'm No Angel*, Ayshe Raif, gives Mae an easy ride. Too easy, actually. Mae steams through her time in London, a determined symbol of sex and fun, and the main traumas that occur are in those around her: the boxer, the nun, the manager.

Still, there is something terribly believable about that. The real *Monstres sacres* never doubt that they can sin *and* go to heaven; otherwise they wouldn't be *sacres*. Mae has her teenage hunk, she pays his mother hush money, and meanwhile she consults the nun, chiefly about her late mother. Yet *she listens*, too. We get to know the vulnerable sides of the lesser folk better than we do hers. *I'm no Angel* would be better if it showed just how terrifyingly invulnerable Mae is.

What about the one-liners and the songs that Mae was famous for? They are here in plentiful supply. The jokes are ingeniously worked into the dialogue: Nun: "I've heard so much about you". Mae: "But you can't prove a thing." Nun, laughing: "I laughed so much when I first heard that line." The songs are simply part of Mae's routine – her London show, her daily work around which she fits in sex with the boxer and psycho talk with the nun.

Lynda Baron plays Mae. Like the show, hers is a *slightly superficial* view of Mae, but my only big complaint is that her more vehement scenes lack force. She sings well – well enough to make you attend to all the wordplay in "I Want to Feel that Lowdown Music Trickle Up my Spine"; and she speaks the way she sings. No doubt the original Mae had more bite, danger, voluptuousness. But Baron combines fun, heavy-eyed glamour, grit, and sheer camp, all with enough *finesse* to make you believe, at least, in *her* Mae.

Patrick Sandford directs. Much of the first half's dialogue could be paced with more conviction, but the show runs smoothly and entertainingly. If it dared to take a more searching view of the ruthlessness, deceptions, and doubts involved in preserving Mae West, it would be more memorable. More sexy also. As it is, it is a happy reminder of why Mae remains an icon. "A lot of men like a gal with a past. They hope *that history will repeat itself*."

Alastair Macaulay

At the Nuffield Theatre, Southampton. 0703 671171

The Grub Street Opera

Henry Fielding (1707-1754) managed more in one lifetime than most people could in several. He was a playwright, a novelist and then, when his libertine desires outstripped *his failing capacities*, a magistrate. He wrote *The Grub Street Opera* in 1731, when it was banned by the Prime Minister. The Magnificent Theatre Company presents it at the Lilian Baylis Theatre in what it claims is the first staging. A fine, genial and good-humoured evening it makes, too, all partridges and bumpers of ale.

Fielding comes over as a sharp lyricist and a facile plotter. In fact, the plot is a cipher, and hardly matters. The opera has 60 airs, spontaneous soundbites of song which punctuate the action. There are songs in praise of roast beef and ale, preparation for the orgies of consumption in *his novels; and a deliciously rhymed* paean to tobacco which leaves most current West End lyricists out of puff.

Grub Street was an area of London near Moorfields full of "scabrous hacks" and hired scribblers. *The Grub Street Opera* teems with the extinct worldliness of the 18th century. Alongside the usual imprecations – "Lookye ... Egad ... Pshaw" – Fielding trades in perfidy, reputation and rank. All his characters are intelligent and capacious.

The production, directed by Ben Crocker, fizzes along, but fails to find anything worth caring about, and has to jump-start itself after *every song. The travelling set is a* simple, inventive raised platform strewn with playbills and *billets-doux*. The acting, particularly from Richard Pocock as the resident fop, is precise and deliciously overdone. The cook wears an apron of quilted poultry and brandishes a rolling pin, the maids twitter, the butler curses and the parson drinks: a perfect Georgian symmetry.

At the centre is Sir Owen Apshinken, a Welsh gentlemen slowly drinking himself asunder to escape his shrewish wife. Their frisky son, Master Owen, all flounce and flutter, chases the maids but runs out of ideas when the chase is up. Below stairs, an entire petty larceny of servants cheat their way through life.

Behind *Grub Street* lies Fielding's satire of the dim George II, the pretentious Queen Caroline and their lecherous son Frederick Prince of Wales. Since the satire has not been altered to suit the present times, the strength and scandal of Fielding's original has been lost. But on this form, and theirs, the royal family should be grateful Fielding stopped writing two and a half centuries ago.

Andrew St George

Lilian Baylis Theatre, EC1 (071 837 4104) until Nov 27; then on tour

Theatre/**Malcolm Rutherford**

Fun with Faustus

Because it is so seldom performed one forgets just how much of Christopher Marlowe's *Dr Faustus* is made up of knock-about comedy rather than grand verse. The appearance of Helen of Troy and Faustus's immortal lines in response stick in the memory more than the seven deadly sins or the antics of Faustus and the friars in the Vatican. Yet the production at Greenwich, where Philip Franks moves from an acting to a directing role for the first time, *has a good shot at putting it all* together.

Some details are perverse. The good and bad angels are a pretty scruffy pair of women, made peripheral to the story. Lucifer makes his first appearance in what look to be his underpants. The scene is set in a bed-sit, admittedly a very large one, possibly close to the University of Newcastle.

One guesses the place because Jonathan Cullen's Faustus has a distinct Geordie accent – or has it become the fashion after Alan Cumming's Scottish Hamlet that heroes now come from the north? As a student he must be on a grant since, for such a learned man, he has very few books around. Presumably he borrows the key texts from the library.

It takes time to adjust to this cultural shift. Mephistopheles helps to put it in place. Played by Hugh Ross, he is a very tall, suited figure in a long overcoat. He might be the vice-chancellor, or a senior, defeatist civil servant who has seen it all before; a very fine performance.

Some of the high jinks come off remarkably well, especially the seven deadly sins. Pride appears through the mirror. Covetousness climbs cleverly out of a suitcase lying on the floor. Gluttony falls out of the fridge. Sloth crawls up through the sofa. Lechery looks all that her name implies, and more: it is entirely fitting that the same actress, Allie Byrne, should also play Helen.

The Vatican scenes, where an invisible Faustus plays havoc with *priestly rituals, come out on the* right side of amusing. The horse coursing scene just misses, and this is the trouble with playing *Faustus* in full. The more low comedy there is, the more it distracts from the tragedy and poetry of Faustus the man.

Playing the complete text means that Faustus only comes into his own towards the end when he has a sudden rush of spectacular speeches disproportionate to the rest of the piece. It is only shortly before he has but one bare hour to live that Cullen's Faustus emerges as a tragic hero. He delivers the wonderful final soliloquy with great passion and intelligence. One cannot help wondering, however, why he has to live in quite such drab surroundings.

There is some very striking accompanying music to the play composed by Jeremy Sams, yet again it has the effect of being slightly too elegant for the set.

Greenwich Theatre until December 11. (081 858 7755)

INTERNATIONAL ARTS GUIDE

■ ATHENS

Megaron Tonight, tomorrow: Rudra Béjart Lausanne in choreographies by Maurice Béjart. Mon: Jacques Delacôte conducts Italian opera gala, with Rosalind Plowright, Dennis O'Neill and Ruggero Raimondi. Tues: Tatiana Nikolaeva plays Bach's Goldeberg Variations. Wed: Alexandros Myrat conducts La Camerata in works by Elgar, Honegger, Mozart and Shostakovich. Nov 27, 28: Nikolaus Hamoncourt conducts Chamber Orchestra of Europe, with violin soloist Gidon Kremer. Dec 5, 6, 7: Czech Philharmonic Orchestra (01-728 2333/01-722 5511)

■ BOLOGNA

Teatro Communale Vladimir Spivakov conducts the Moscow Virtuosi on Mon in works by Elgar, Mozart, Schnittke and Shostakovich. The 1993-94 opera season opens on Nov 27 with Puccini's Trittico (Biglietteria, Ente Autonomo Teatro Communale di Bologna, Largo Respighi 1, 40126 Bologna. No telephone bookings accepted. For information, call 051-529999)

■ BARCELONA

Gran Teatre del Liceu Sat: Elena Obraztsova song recital. Dec 4: first night of Donizetti's La fille du régiment with Edita Gruberova (tel 412 3532 fax 412 1198)
Palau de la Musica *Tonight: Julliard* Quartet plays string quartets by Haydn, Claus Adam and Schubert (268 1000)

■ FLORENCE

Teatro Communale Tomorrow, Sat, Sun: Carlo Maria Giulini conducts Tchaikovsky's Second Symphony and Musorgsky's Pictures from an Exhibition. Next week's concerts are conducted by *Gianandrea Gavazzeni* (055-277 9236)

■ LONDON

THEATRE

- Angels in America: Tony Kushner's two-part epic can be seen in its entirety for the first time on a British stage. The second half, Perestroika, joins Millenium Approaches this weekend in the Cottesloe, both directed by Declan Donnellan (National *071-928 2252*)
- The Iron Man: the world premiere of a new rock opera by Pete Townshend, adapted from a story by Ted Hughes, directed by David Thacker. Previews begin on Saturday, press night November 25 (Young Vic 071-928 6363)
- Moonlight: Ian Holm and Anna Massey head the cast in Harold Pinter's first full-length play for 15 years, in a West End transfer of the Almeida production (Comedy 071-867 1045)
- She Stoops To Conquer: the Peter Hall Company presents a revival of Oliver Goldsmith's evergreen Restoration romp about mis-matched love and mistaken *identities, starring* Donald Sinden (Queens 071-494 5041)
- Relative Values: Tim Luscombe's admired Chichester Festival production of Noel Coward's comedy, with Susan Hampshire and Alison Fiske (Savoy 071-836 8888)

OPERA/DANCE

Coliseum Mark Elder conducts the first night on Sat of Tim Albery's production of Lohengrin, designed by Hildegard Bechtler and Nicky Gillibrand, with a cast led by John Keyes, Linda McLeod, Linda Finnie and Malcolm Donnelly. The production, ENO's first new Wagner staging for 10 years, runs till Dec 29 in repertory with Le nozze di Figaro, Il barbiere di Siviglia and Die Fledermaus (071-836 3161)
Covent Garden The Royal Ballet has MacMillan's Romeo and Juliet, a double-bill pairing Balanchine's Ballet Imperial and Ashton's Tales of Beatrix Potter, and a mixed bill including MacMillan's Different *Drummer and Forsythe's Herman* Schmerman. The Royal Opera's repertory over the next two weeks is devoted to Martin Duncan's production of Die Zauberflöte, originally staged by Scottish Opera, with changing casts including Amanda Roocroft, Sumi Jo and Wolfgang Holzmair. Tosca is revived on Dec 4 with Anna Tomowa-Sintow (071-240 1066)

THE PURCELL EXPERIENCE
Roger Norrington leads a weekend of talks, discussions, rehearsals and performances at the Queen Elizabeth Hall, starting on Sat afternoon and ending with a semi-staged performance of The Fairy Queen on Sun evening. This is the second part of the South Bank's exploration of Purcell, leading up to his tercentenary celebrations in 1995 (071-928 8800)

CONCERTS
South Bank Centre Tonight: Bernard Haitink conducts LPO in works by Mozart and Shostakovich, with piano soloist Emanuel Ax. Tomorrow: John Lill plays Brahms' Second Piano Concerto. Sat: Libor Pesek conducts RPO in Nielsen, Shostakovich and Mahler, with violin soloist Arve Tellefsen. Sun afternoon: Sviatoslav Richter piano recital. Sun evening: Leonard Slatkin conducts Saint Louis Symphony Orchestra in Vaughan Williams, William Bolcom and Richard Strauss, with flute soloist James Galway. Mon: Yan Pascal Tortelier conducts BBC Philharmonic in a Gorecki programme. Tues (RFH): Giuseppe Sinopoli conducts Philharmonia Orchestra in Schubert, Mozart, Rossini and Respighi, with *mezzo soloist* Cecilia Bartoli. Tues (QEH): Sian Edwards conducts Docklands Sinfonietta in Zimmermann, Berg, Penderecki and Weill, with violin soloist Tasmin Little. Next Wed: Wolfgang Sawallisch conducts LPO in Pfitzner, Shostakovich and Beethoven, with cello soloist Lynn Harrell. Nov 29: Alfred Brendel. Nov 30: Sawallisch conducts Richard Strauss. Dec 4: Boston Symphony Orchestra (071-928 8800)
Barbican Tonight: Kent Nagano conducts LSO in works by Boulez, Mozart and Mahler, with piano soloist Barry Douglas (repeated next Thurs with violin soloist Sarah Chang). Sat: Andrew Constantine conducts ECO and Thomas Tallis Choir in works by Bach and Fauré. Sun: Nagano conducts British premiere of Messiaen's Eclairs sur l'Au-delà. Mon: Nikolaus Hamoncourt conducts Chamber Orchestra of Europe in Beethoven. Tues: Sviatoslav Richter plays Bach (071-638 8891)

■ MILAN

Teatro alla Scala Sun: Nicolai Gedda song recital. Mon: Mirella Freni sings arias by Cilea, Puccini and Verdi, with orchestral accompaniment conducted by Maurizio Benini. Dec 7: opening of 1993-94 opera season with La Vestale (02-7200 3744)

■ MADRID

Teatro Lirico La Zarzuela Tonight, tomorrow, Sat: Compagnie Angelin Preljocaj in choreographies by Preljocaj. *Sun: Antoni Ros Marba* conducts Madrid Symphony Orchestra in Bruckner's Eighth Symphony (01-429 8225)
Auditorio Nacional de Musica Tonight: Spanish National Chorus in music by 16th century Spanish composers. Tomorrow, Sat, Sun: Pedro Ignacio Calderon conducts Spanish National Orchestra in works by Pedrell, Piazzola and Sibelius. Next Tues: Ruggero Barbieri conducts Madrid Classical Orchestra in Mendelssohn, Chaviano and Schubert (01-337 0100)

■ PRAGUE

Kazushi Ono conducts Czech Philharmonic Orchestra in works by Wagner, Beethoven and Shostakovich tonight and tomorrow in Dvorak Hall, piano soloist Grigori Sokolov (02-286 0111). Also Daniel Schweizer conducts Czech Radio Symphony Orchestra next Tues in works by Kalach, Beethoven and Schubert, piano soloist Giovanni Bellucci (02-232 2501)

■ ROME

Teatro Olimpico Tonight: I Virtuosi di Roma play works by Vivaldi, Boccherini and Albinoni, with contralto Francesca Franci. Next Tues: Momix Dance Theatre, choreography by Moses Pendleton, music by Peter Gabriel. Dec 2: John Eliot Gardiner conducts Monteverdi (06-320 1752)

■ VENICE

Teatro La Fenice Sat: Garcia Navarro conducts first night of Pier Luigi Pizzi's new production of Mosè in Egitto, with a cast led by Ruggero Raimondi, Robert Swensen and Luciana Serra. Repeated Nov 23, 25, 28, 30, Dec 2 (041-521 0161)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
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Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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No upwardly mobile freeway to the future

BOOK REVIEW

COLLISION
By Maryann Keller
Doubleday/Currency $25. 283pp

At General Motors, the stumbling giant of the world car industry, it took an unprecedented two-stage coup last year by the company's outside directors to oust the old management in a last-ditch effort to drive the company out of the biggest losses recorded in US corporate history.

Volkswagen, the leader of the European car industry, is racked by losses. The high-cost producer of the world car industry, it is enduring a corporate and cultural revolution. A large part of its senior management has been discarded in less than a year; its chief executive looks more isolated each day and is fighting a lonely battle, with his closest colleague under investigation by the German public prosecutor for alleged industrial espionage.

Toyota, the leader of the Japanese industry, is much less obviously in trouble, but its previous air of invincibility is being undermined. The stubbornness of the domestic Japanese recession, the surging yen and sales problems in foreign markets have combined to all but wipe out its operating profits. It too faces a leadership crisis, as the company struggles to move beyond the era of the Toyota family dynasty.

Must Toyota face a crisis as severe as those of GM and VW in order to change? The question is posed by Maryann Keller, a leading US financial analyst of the world auto industry, whose latest book *Collision* is a compelling account both of the storms buffeting the world's carmakers and of the executives struggling to stay at the helm.

"Toyota is clearly losing momentum and is bogged down by its responsibilities as Japan's number one corporate citizen. Whether the company slips into mediocrity or retains its leadership role depends upon Tatsuro Toyoda (Toyota president since September 1992), a man not known for decisive action at a time when the company needs vision and leadership," argues Keller.

She has set out to chart the fluctuating fortunes of GM, Toyota and Volkswagen, the leaders of the auto industries of North America, Japan and west Europe, as they career along a collision course not so much with each other but with the unfamiliar challenges of the 21st century.

Misleadingly, Keller has chosen to coin the phrase the "global big three" to describe her target companies. The industry is dominated by at least a global big five. Ford, the number two US carmaker, is bigger than both Toyota and Volkswagen. Nissan, the number two Japanese carmaker, vies with Volkswagen in size.

Keller is not interested in such niceties, however. Her subjects were not chosen in deference to the industry's pecking order, but to use the companies as a way of exploring the national cultures in which they are embedded.

At such an elevated level the book falls short. In particular, as Keller travels away from North America it often becomes little more a travelogue and a beginner's guide to the cultural histories of Germany and Japan.

Within the more narrow focus of the world motor industry, however, *Collision* provides a riveting look at some of the forces that have shaped the fortunes of the three carmakers during recent decades, and provides intriguing insights into the personalities at the top of the world's dominant manufacturing industry, as well as those who have fallen by the wayside.

Best-documented by Keller is the upheaval that has riven GM, the company where her inside knowledge is greatest. She gives a damning portrait of GM during the era of Roger Smith's "wild destructive reign" in the 1980s, and during the unhappy and short-lived tenure of his successor Mr Robert Stempel.

By the beginning of the the 1990s, "GM reflected more the crumbling decay of Detroit's inner city than the durability of its granite and marble headquarters building... A visit to the 14th floor (the executive office suite) was like entering a time warp from GM's glory days. General Motors was a perfect example of the contemporary corporate malaise, where income and privileges bore no relation to performance."

While many of the GM leaders suffer from the acid of Keller's pen, she is equally telling in her description of the leading personalities at Volkswagen, Mr Carl Hahn, chief executive until the end of last year, and Mr Ferdinand Piech, the man who has spent 1993 struggling with his predecessor's doubtful legacy.

"Piech was cut from a different cloth than Hahn. While Hahn was smooth as silk, a consummate charmer who enjoyed the public stage, Piech was balding, slope-shouldered and haggard – always uneasy in the spotlight."

At Toyota Keller leaves no doubt that she believes that the company is heading for a leadership crisis, and that one of its most difficult periods the family has chosen a weak leader in the shape of Tatsuro Toyoda, not groomed like his brother and predecessor Shoichiro, to lead the corporation. "At Toyota, regardless of how high the rank might be, everyone bowed to Shoichiro. But at Toyota Motor Sales, Tatsuro bowed to others."

The case arguing the relative weakness of Toyota only partially succeeds, but nonetheless she is ready by the end of *Collision* to pick her winner.

VW is dismissed for having "spun in its own narrow orbit" for most of its history. "Of the three companies it may be the least adaptable to change."

Toyota is the most complex because it is standing where GM was 30 years ago. "It knows how to be successful. The question is: does it know how to function in a less secure environment?"

Which is the best car company in the world? "I am compelled to answer, 'The one that has most recently overcome great problems.' Right now that company is General Motors."

Kevin Done

In the course of preparing some essays for publication, I had to look at a chapter I had written for a book which appeared in 1989, to commemorate the 10th anniversary of the Thatcher government. The point was to see what, if anything, should be added by way of postscript.

The answer was: Surprisingly little. That government made a start in removing some of the impediments to economic success. During the post-Thatcher years the ground seemed to have been lost again, first because of the resurgence of inflation and the high interest rates needed to combat it; and afterwards by the recession which proved longer, more drawn out and more debilitating than almost anyone expected. Recently, however, international comparisons have moved in favour of the UK again. Recovery, if patchy and uncertain, has arrived earlier than in continental Europe, while Japan is stuck in a deep recession; and the economic debate has moved to the labour market rigidities which the UK has taken a lead in removing.

But the statistical dust of at least another business cycle will have to settle down – and the last one went on for over a decade – before any quantitative conclusions can be drawn. Thus I was glad to come across a book which moves away from inconclusive numerical comparisons and sheds some light on why even someone who welcomed the 1980s emphasis on competition and deregulation should still feel uneasy about some of the cultural aspects of the Thatcher revolution, including those that live on under the Major government.

The book in question is *The Economics of Business Culture* by Mark Casson (published by the Clarendon Press in 1991). It may be a surprising one for a advocate of market competition to cite. For the author seems to hanker after something like the "business plan for Britain" with which John Smith wooed gullible CBI members at Harrogate this week. And Casson does not devote nearly enough attention to the role of competition in providing new products and new processes, and putting downward pressure on prices.

Yet the best way to approach such a book is to see what can be learned from it rather than where it is open to question. Professor Casson's object is to develop a rigorous economic theory which retains the central position of rationality in

ECONOMIC VIEWPOINT

New light on 'trust versus law'

By Samuel Brittan

traditional economics and of the individual as the unit of decision, but which drops the postulates of materialism and selfishness.

Without having worked through all the detailed chapters, it is difficult to say how far he has succeeded – the book deserves more attention than it has received. Most of the analysis relates to the internal relations of organisations. The pupil who shared my first year economics supervision at Cambridge, and who worried about the selfish motives of the textbook businessman who tried to equate marginal cost with marginal revenue, might still not have known how to react, even if he had been able to foresee this book. Nor is it clear how the advice of top Treasury officials such as Sir Terence Burns or Professor Alan Budd about the forthcoming UK Budget would be different if they had absorbed Casson's message.

Yet the basic thought behind it is sound. This is that the largest costs in a modern economy are transaction costs, and that these are minimised in an atmosphere of trust – in contrast to an atmosphere where everyone tries to take advantage of everyone else, and no-one moves without a lawyer. An example of what can go wrong has just been given by a so-called rightwing member of the British cabinet, John Redwood, when he spoke of the growth in the number of distant Health Service "managers in grey suits" all too ready to solve their problems by closing down hospital wards.

What Casson does not explain is how to combine co-operation and trust within organisations without this extending to anti-competitive collusion between them. I still think the best solution is the one outlined in my 1985 Wincott Lecture: an honest explanation of the benefits of competition and the profit motive as a means to the general welfare, without making this part of the "devil take the hindmost" view of life, so bitterly satirised in J B Priestley's play *An Inspector Calls*, now enjoying such a successful revival in London.

Competition as a system of economic relations need not be based on personal hatred or mutual hostility. Rival small

An atmosphere of trust minimises transaction costs in a modern economy

entrepreneurs linked by electronic cable to their main customers or suppliers need hardly be more aware of each other's existence than the small farmers of Thomas Jefferson's ideal republic.

Market economics comes in many shapes and sizes. Casson puts his finger on the mark when he writes that the supply side package imported from the US "comes laden with certain cultural presuppositions – amongst them the view that because people cannot be trusted, formal methods of enforcing competition between them are essential in all areas of activity... The US emphasis on the law as an enforcement mechanism is a related cultural attitude which may not 'travel' well." He also describes the way in which these attitudes have been borrowed from the US when many successful private enterprise organisations are making their management styles more human and informal, supposedly under Japanese influence. Thus his unease extends beyond British admirers of US economic and management styles and extends to the tenor of the advice that the mainstream international organisations are giving the former communist and developing countries. How does this analysis apply to current contentious issues, such as the (now stalling) initiative to reform the civil service through devolution to smaller agencies and through market testing of services to ascertain whether they should stay the public sector?

Casson seems to see such initiatives as characteristic of an authoritarian leader who not only does not trust other people in general but "cannot even trust a few people to do his monitoring for him. The leader will also favour strong interpersonal competition, sustained by making people rivals for one another's jobs: The intensity of competition may be further raised by creating a pool of unemployed or marginal members who are ready to step into other people's jobs at short notice."

These words may be a good description of how cabinets are reshuffled in Britain. But if one wants a more co-operative style in government in general, smaller units are the first essential. Loyalty and non-material satisfactions are likely to be more important in an independent hospital or in a hived-off administrative unit than in a vast organisation like the National Health Service.

Nor, indeed, did proposals to hive off units originate with the Thatcher administration. They date back further. I first came across them in a 1960s Fabian pamphlet. Permanent secretaries who are obstructing the hiving-off drive, or proposals to advertise senior Whitehall appointments, are behaving more like male baboons fighting for territory than crusaders for higher values.

Many people have described the paradox that market liberalisation has gone hand-in-hand with a shift of power from intermediate sources of authority to central government. Casson is right to detect incipient authoritarianism behind free market rhetoric.

But another factor has surely been an excess of caution. Governments have not had the courage to undertake the drastic reforms which would make, for instance, local authorities or universities responsible for the bulk of their own financing. This is why Whitehall centralisers have acquired their hold. Perhaps the answer to the paradoxes generated by the Thatcher attempt to get the state off the people's back is to carry it further and really mean it.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Perfume ruling cannot go unchallenged

From Prof D G Rhys.

Sir, So now we know. An industry which sells products in such a way as to preserve an up-market image and to charge prices that generate a retail profit of 40-60 per cent of the retail price, and which refuses to supply outlets which might reduce that price is not acting against the public interest.

At least, so says the Monopolies and Mergers Commission in its report on the way, mainly foreign, fragrance companies distribute perfume products in the UK ("Perfume outcome surprises observers", November 12). The report cannot be clearer in its support of high prices when it says: "Fine fragrances are marketed as luxury products and the MMC accept that the suppliers need to be able to control their distribution in order to protect their brand images which customers evidently value. There is no shortage of other fragrances at much lower prices."

In other words, perfume companies must be allowed to restrict distribution and supply in order to keep prices high; only if they are paying high prices do consumers think they are obtaining value.

The MMC judgment on the perfume distribution is perverse and cannot be allowed to stand unchallenged. Otherwise, all future cases of relatively high prices can be justified on the grounds of protecting the brand image to the benefit of consumers. This is not right and is unsupported by mainstream economics.

When confronted with the MMC decision the question provoked is – who guards the guardians? One answer could be a House of Commons select committee. If the Office of Fair Trading, MMC and Department of Trade and Industry cannot protect the consumer from price exploitation parliament had better ask why. After all, to remove the barrier to lower prices would reduce the upward pressure on the retail price index and persuade government to be more positive in stimulating growth.

To undermine the position of fragrance houses, high price supermarkets, electrical and audio visual shops and so on would be a genuine supply side improvement that reduced the natural rate of unemployment.

D G Rhys,
head of economics,
Cardiff Business School,
Colum Drive, Cardiff CF1 3EU

Unfortunate advice

From Mr Jeremy Beecham.

Sir, Tony Baldry's advice to local authorities on tendering is misguided, if not wrong. He states (Letters, November 16) that "it is not possible to decide whether Tupe applies until the contractors' proposals are seen". Not only is it often possible to make such a judgment, legal advice we have sent to local authorities indicates it would be absurd in many cases not to. Indeed, we have found that contractors often prefer the certainty of knowing what the position is when making their bid.

Mr Baldry believes he has issued further advice on this matter. I thought we were currently consulting him on this. He has clearly already made up his mind. That is unfortunate as his advice flies in the face both of the law and common sense. His letter is symptomatic of the government's attitude to Europe – seeking to evade its responsibilities. Local authorities, however, recognise they have obligations under European law and will act in the light of them.

What must be deplored is Mr Baldry's attitude in threatening local authorities that if they do not do as he says he will take action against them. It is time for a more considered and helpful approach to this problem.

Jeremy Beecham,
chairman,
Association of Metropolitan Authorities,
35 Great Smith Street,
London SW1P 3BJ

Other ways to connect N American economies

From Mr Cameron Duncan.

Sir, Your editorial on the results of the state and local elections in the US ("Democrats in retreat", November 4) included the assertion that "there is no doubt that the US economy would benefit from Nafta". There are many members of Congress, as well as citizens in Canada, Mexico and the US who would disagree with you and would favour a different sort of economic integration.

Nafta, they have discovered, is not simply a "free trade" agreement integrating the economies of North America. It is also a programme to entrench the conservative practices of the Reagan-Bush era. By tying restrictions on government regulations and services to an international trade deal, Nafta makes the implementation of new public services and environmental protection much more difficult.

If Congress does pass Nafta, environmental regulations, health and safety standards, educational policy and labour law will all be affected. Social policy will be taken outside of the democratic process, restricted by an international agreement and regulated by unelected trade bureaucrats. Under Nafta, any US laws that restrict the sales of goods because of the way they are produced – either by environmentally-destructive processes or unfair labour practices – would be subject to challenge by Mexican or Canadian companies.

Even more important, social gains in one country would often be difficult to maintain. Why should a company comply with costly labour or environmental laws in the US when it could avoid them by moving to Mexico? There are alternative ways to connect our economies. A new Nafta could, for example, include a social charter that would protect environmental and labour laws and provide funds for raising incomes in poorer regions. We could enjoy the advantages of international trade without enshrining the "free market" as an unlimited mechanism for organising economic life.

Greenpeace does not oppose international economic integration, but on social and economic grounds we oppose the sort of integration that this agreement would provide.

Cameron Duncan,
Greenpeace,
1436 U Street NW,
Washington DC 20009, US

West can aid former Soviet bloc nuclear clean-up

From Mr Roger Hayes.

Sir, Bronwen Maddox's trip to Chernobyl (November 15/16) has highlighted the need to clean-up the contamination caused by the world's worst nuclear accident. She was right to point out that there is no evidence to support claims that 8,000 people have died as result of the accident. However, the fact that 42 people did die and considerable contamination remains, illustrates that the nuclear industry in the former Soviet Union needs all the help it can get to put things right.

The British nuclear industry has been at the forefront of providing the necessary help. Take contamination. A British consortium, involving among others AEA Technology, has recently developed a "Chernobyl clean-up strategy" which has been funded by the Foreign and Commonwealth Office's "know-how" fund. This will help the Ukraine secure the funding it needs for specific projects designed to return contaminated land to more normal conditions.

Russian Chernobyl-type RBMK reactors were not built to western safety standards and they had inherent design weaknesses which were exposed in the 1986 accident. In response, Britain leads a consortium of European countries involved in a Ecu7m project, funded by the EU. This project will identify how to upgrade the safety features of RBMK reactors and how to make them as close to western standards as possible.

Britain and other western nuclear powers have the ability to put right what is wrong in the former Soviet bloc. Your correspondent's report has made a helpful contribution by keeping the whole topic in perspective.

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FINANCIAL TIMES
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Thursday November 18 1993

Talking to the Chinese

AFTER 15 years of market-oriented reform, China is transforming itself into an economically liberal, open and powerful market economy. Its cities look more and more like other Asian cities with new office and apartment blocks, busy department stores, karaoke bars, and traffic jams caused by cars instead of bicycles. The economic achievement of Mr Deng Xiaoping, China's senior leader since reform began, is already substantial, as today's FT survey makes clear. And this process is almost certainly irreversible: political power is too decentralised, the constituency which has benefited from reform too widespread and entrenched.

Yet for the outside world, the enduring image of China remains that of tanks crushing the 1989 protests in Tiananmen Square, a dark reminder that China's spectacular economic success has been built on a repressive one-party state. It is this contrast between China's economic dynamism and political backwardness which continue to make China's relations with rest of the world so difficult.

The country is, without doubt, an economic force to be reckoned with, as demonstrated by the fact that the Chinese president, Jiang Zemin, will hold one-to-one meetings with the Japanese, South Korean and US leaders at this week's Apec meeting in Seattle. Companies from east Asia and, increasingly, the US, have responded to China's open door policy by investing billions of dollars. The rest of the world's economic stake in China's development is large and growing fast.

Inefficient bureaucracy

Not that the reality of China's economic development fully lives up to its image. The state enterprise sector remains an inefficient drain on the economy, social welfare provision is undeveloped and 100m Chinese still live in absolute poverty. Reform has also brought problems. By unleashing strong provincial ambitions, Beijing has weakened its ability to exercise macroeconomic control. Meanwhile, huge ranks of poorly-paid bureaucrats, still with considerable powers, mean that China's bureaucracy is both inefficient and riddled with corruption.

But it is the manner in which China conducts its internal affairs which remains the biggest problem for many outsiders, particularly in America. The rule of law and freedom of speech remain subservient to the party line, while documented human rights abuses are legion. Little wonder that the US has been tempted to link economic concessions – in particular on trade – to progress on non-economic issues.

Human rights

President Bill Clinton's success in persuading Congress to renew China's Most Favoured Nation status this year depended, in part, on his willingness to link next year's renewal to China demonstrating "substantial progress" in tackling human rights abuses, progress which China has yet to demonstrate convincingly.

Yet to try to ostracise China from the world community or to blunt its open economic development with trade restrictions would be a grievous error. Market reform in China may be irreversible, but the outside world has the power to speed or impede that process. And the pace at which this change occurs is, almost certainly, the most important determinant of the rate of political change.

The evidence from elsewhere – South Korea and Taiwan are good examples – is that economic growth and liberalisation intensify the pressure for political freedom and democratic change. Closing the door on China, and thus effectively slowing the flow of western capital, practices and ideas into the country, can only slow that change.

In short, renewal of China's MFN status is the best way to encourage political change, a fact that in recent weeks Mr Clinton has shown he recognises. His desire to engage China in a co-operative rather than antagonistic relationship is the right course. China's new wealth and status mean that it too has bigger responsibilities – to honour its obligations to counter nuclear proliferation, accelerate progress on human rights and resolve outstanding trade disputes. But progress is more likely to be achieved if US concerns are carefully explained rather than delivered with menaces.

Last lap in South Africa

YESTERDAY'S historic agreement leaves South Africa within reach of what once was a dream. Over 300 years of white domination will end when the country's electorate goes to the polls next April, under a constitution which enfranchises the black majority.

It marks the penultimate step in the dismantling of an evil system that has brought pain and humiliation to millions. The ending of minority rule has been made all the more remarkable by the fact that President F W de Klerk has had the wisdom and courage to preside over the dissolution of white minority rule. Equally remarkable has been the part played by his main political adversary, Mr Nelson Mandela, who emerged from decades in jail calling not for revenge, but for reconciliation.

But the last stage of South frica's transition from apartheid democracy may prove the most azardous. Chief Mangosuthu uthelezi, leader of the predomi- intly Zulu Inkatha Freedom arty, and the white-led rightwing onservative Party, reject yester- y's outcome.

Even if they can be persuaded to rticipate, the battle for power rough the ballot box will mand unprecedented tolerance a sharply divided society where ore than 12,000 people have eady died in politically inspired olence since Mr Mandela's ease in February 1990. Main- ning law and order will chal- ge the integrity of security ces predisposed to white minor- rule.

But above all, the coming weeks ll pose the first test of the con- tution. How voters cast their llot – indeed whether some vote all – will be determined as ich by their assessment of the rits of the constitution as by appeal of the parties them- ves.

reful examination

lany South Africans are only taking in what their represen- ves have won or lost at the tiating table. This calculation require careful examination constitution whose final e did not emerge until last t.

many respects, what has been lshed is a model for other an countries. Proportional representation guarantees that any party winning five per cent of the vote will have a seat in the executive. The Bill of Rights accommodates cultural differences while guaranteeing equality under the law. There is also a formula for equitable allocation of state revenue to the provinces.

It is not the winner-take-all constitution that was the basis for majority rule in the rest of the continent. But some critical issues need clarification, and the outcome could help decide whether Inkatha and the white right decide to participate in the poll, or try to sabotage it.

Adequate role

Although the constitution envisages a government of national unity, it remains to be seen whether minority parties are given an adequate role in the exercise of executive power. And although Mr Mandela's African National Congress (ANC) has shifted from its opposition to provincial assemblies, the extent of the powers they are accorded are either not clearly defined, or subject to being overruled by central government.

Given these uncertainties, the role of the 11-member court that will arbitrate in constitutional disputes is critical. Yet composition of this body will be determined by the post-election majority party, putting the court's independence in question.

If whites' and other minorities' concerns and fears prove well founded, as this complex agreement comes under wider and closer scrutiny, defections from the ruling National Party to Inkatha or the far right Conservative Party will weaken President de Klerk's authority in the demanding months ahead and heighten the prospect of extreme rightwing violence.

If the powers offered provincial assemblies are of little substance, it may be impossible to persuade Chief Buthelezi to participate in the election, raising the frightening prospect of further conflict in his home province of Natal.

Mr de Klerk and Mr Mandela were the architects of the new constitution: they must address these concerns, and reassure the doubters, if they are to keep South Africa on course for democracy.

John Ridding and **Quentin Peel** on the competition between European groups for high-speed rail contracts

Next chapter of the railway children

If Mr Claude Darmon is right, the world's railways may be entering a new golden age. The head of transport operations at GEC-Alsthom has a vision of sleek high-speed trains running at more than 300 kph (212 mph) between many of the world's largest population centres, cutting journey times and curbing pollution.

"We are looking at one of the biggest ventures of the next century," he says, comparing the new generation of high-speed railways to the development of international highways and telecommunications.

From Europe to Asia, Latin America and the US, the growth of urban populations, national wealth and rail technology lend weight to his view. But if the potential is great, so is the competition.

Mr Wolfram Martinsen is Mr Darmon's greatest competitor and rival as chief executive of Siemens Transportation Systems. His group, with Daimler-Benz's subsidiary, AEG, leads the consortium behind the InterCity Express (ICE) train, which is seeking to erode the lead enjoyed in the world market by GEC-Alsthom's Train à Grande Vitesse (TGV). It is a classic tale of European rivalry.

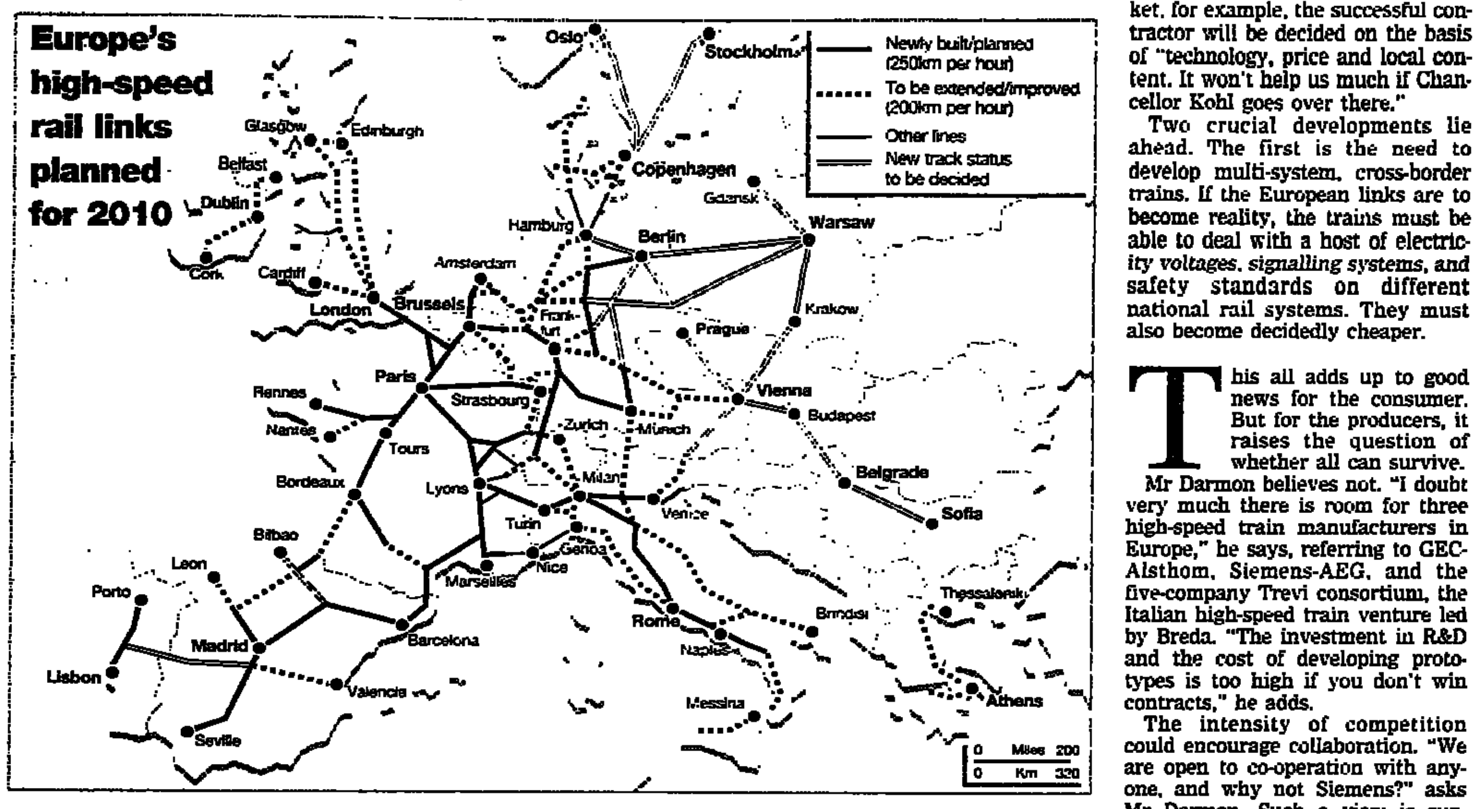
Mr Martinsen is slightly less sanguine than Mr Darmon in his assessment of the market. "Within the whole world market for railways, the high-speed market accounts for a maximum of 15 per cent," he reckons.

The clearest example of the high stakes involved in the industry rivalry has come from South Korea. In August, GEC-Alsthom beat off a furious challenge from Siemens-AEG to win sole negotiating rights to build a high-speed rail link between Seoul and the south-eastern port of Pusan. Final details of the $2.4bn (£1.61bn) contract to supply the trains and technology are now being hammered out.

Siemens is still protesting at the decision, as is the Japanese consortium led by Mitsubishi, which manufactures the Shinkansen, or bullet trains; but their chances of a Korean change of heart appear slim.

The battle for the Korean contract, however, is just one round of the fight for dominance between the three principal players in the industry. Already, they are preparing to fight for the next contract. First is a possible project to link Taipei with the southern Taiwanese port of Kaohsiung. Bids are expected to be invited towards the end of 1994.

Also on the drawing board are plans for high-speed rail links in Canada, possibly linking Toronto and Quebec via Ottawa and Montreal; in the US, between Washington, New York, and Boston, as well as in Texas (from Houston to Dallas), Chicago, California and the north-west; and between Sydney and Melbourne in Australia.



Siemens and AEG have just spent DM17m (£6.7m) sending a full ICE train to the US, first to undertake a coast-to-coast promotion trip ("Ride the ICE train, the hottest thing on rails" goes the blurb), and now to run for a three-month trial period on the Amtrak lines from Washington to New York.

Both sides have taken in US partners: GEC-Alsthom has linked up with Morrison-Knudsen, and Siemens-AEG with General Motors. Even so, Mr Martinsen believes, "the US market will develop quite slowly".

In Europe, therefore, the potential may be greater. At the moment the economic environment is difficult. The effects of recession and the constraints on government budgets have forced the postponement of several TGV orders. Last month, GEC-Alsthom was forced to announce a cost-cutting plan which includes the loss of 660 jobs from its French workforce of more than 9,000. But the first steps of a significant expansion in European high-speed rail links are under way.

The decision by the French government in September to build a new high-speed line between Paris and Strasbourg raises the prospect of the TGV travelling across the border into Germany. It will already do so on the planned Paris-Brussels-Amsterdam and Cologne route, for which 27 trains have been ordered.

The French authorities have also authorised an extension of the south-eastern line from Lyon to Marseilles and to Montpellier. That would all appear to be to the clear advantage of the TGV.

In Germany, however, the ICE consortium has just won the DM2.2bn next-generation contract for an ICE-2, half the size of the original train, but capable of being linked in pairs to provide greater flexibility. ICEs are now running between from Hamburg in the north and Berlin in the east to Frankfurt, Munich, Stuttgart and Zurich in the south and west. In its 1994 summer timetable, the German Bundesbahn plans to extend the ICE to Vienna.

While the prospects for demand appear healthy, the competition to supply high-speed rail contracts is likely to remain fierce. This is largely the result of the nature of the industry. The market for such networks is comprised of a relatively small number of large projects which come up only every few years and which last for many years. The South Korean contract, for example, is not expected to be completed until 2002.

For GEC-Alsthom and its rivals this time lag makes each contract critical. The experience acquired on one puts the manufacturer in a stronger position for the next. Similarly, the economies of scale obtained by winning several contracts allow cheaper pricing in future bids.

German industry is still reeling from its setback in what Mr Martinsen calls "the Korea shock". The final decision in favour of the TGV was said to be because the French train had proved itself for more than a decade, whereas the ICE has only been running since 1991.

Government support is essential to win such massive prestige contracts, Mr Martinsen says. "It is a question of lots of money, and long-term co-operation. This is only possible if the political will exists."

Yet he admits that in the US market, for example, the successful contractor will be decided on the basis of "technology, price and local content. It won't help us much if Chancellor Kohl goes over there."

Two crucial developments lie ahead. The first is the need to develop multi-system, cross-border trains. If the European links are to become reality, the trains must be able to deal with a host of electricity voltages, signalling systems, and safety standards on different national rail systems. They must also become decidedly cheaper.

This all adds up to good news for the consumer. But for the producers, it raises the question of whether all can survive.

Mr Darmon believes not. "I doubt very much there is room for three high-speed train manufacturers in Europe," he says, referring to GEC-Alsthom, Siemens-AEG, and the five-company Trevi consortium, the Italian high-speed train venture led by Breda. "The investment in R&D and the cost of developing prototypes is too high if you don't win contracts," he adds.

The intensity of competition could encourage collaboration. "We are open to co-operation with anyone, and why not Siemens?" asks Mr Darmon. Such a view is supported by the French and German governments, which last year appointed representatives to examine possible co-operation.

The representatives have a delicate task in accommodating national rivalry. Mr Darmon says co-operation would have to consider the fact that 570 high-speed trains have been manufactured by or ordered from GEC-Alsthom, while the comparable figure for the German consortium is 120. He adds that any partnership between the two groups should be based on cost and efficiency considerations and not national and political splits.

Mr Martinsen seems to be more interested in a link-up with the Italian consortium. "I am convinced we will have two trains in Europe," he says. "There is a big enough market at the moment. Whether we can keep that for good is another matter. But that is a question for the railway companies, and the politicians."

Women's jobs are increasingly being poached by the opposite sex, writes **Rachel Johnson**

Men still on top

Mr Alan Hubner, aged 27, of Wigton, Cumbria and Liverpudlian Mr Charles Shiells, 50, have yet to make an impact as the male equivalents of the suffragette Pankhurst family.

But history books might reserve them a footnote each. After decades in which women have battled to take jobs traditionally held by men, the roles are being reversed.

Last month, Mr Hubner was awarded £2,000 by an industrial tribunal after he failed to get a £90 a week job at a Carlisle factory. The tribunal accepted his complaint that he was rejected because he wanted to take advantage of the company's subsidised child-minding scheme, available for women workers.

In an earlier case, Mr Shiells won £600 compensation after being rejected for a job as a nurse at Tuebrook Tots nursery in Liverpool.

The driving force behind men's encroachment into previously *female territory is primarily economic*. The official male unemployment rate – almost 14 per cent of the workforce in September – is more than twice the equivalent female rate.

Mrs Lilian Bennett, chairman of Manpower UK, the employment agency, says there are no figures showing the number of male to female job applicants but reports "a noticeable increase in the numbers of men entering the temping market for jobs that women have expected to do."

Mr Hubner and Mr Shiells represent only the tip of a small, but growing, iceberg. The Equal Opportunities Commission says that of the 1,253 complaints it received last year about sex discrimination in companies' hiring and recruitment policies, 40 per cent had come from men – a 10 percentage point increase on the previous year.

The EOC also says males are "more stroppy" about complaining. "Men are quicker to take advantage of equal opportunities legislation – so much so that, because of lack of funds, we are having to prioritise in women's favour," says the EOC's Ms Fiona Fox.

At the same time, the recession is forcing changes in corporate behaviour. A Confederation of British Industry paper earlier this year noted that high unemployment had reduced the pressure to bring members of under-represented groups into the labour force and to improve their skills.

Though joblessness largely explains the behaviour of companies and individual males, there are also some in the equal opportunities field who detect a backlash against positive discrimination for women. According to a Department of Employment official, "positive action is being targeted as unacceptable at a time of the highest male unemployment since the 1930s."

The driving force behind men's encroachment into previously female territory is economic

No company would admit publicly to dropping commitments to promoting women. But the Labour party recently provided evidence of a possible groundswell of male opinion against affirmative action; Labour MPs reacted to what some described as an "assisted places scheme" for females in shadow Cabinet elections last month by throwing two women, Ms Harriet Harman and Ms Ann Clwyd, off the front bench team. However, Mr John Smith, the Labour leader, reinstated Ms Harman as shadow Treasury chief secretary.

Meanwhile, the EOC has received complaints from several would-be male Labour MPs about the party's proposed ban on men standing in half the parliamentary seats where the local constituency organisation is looking for a new candidate.

All this is bad news for those trying to improve the position of women in work, as the hurdles they face seem as high as ever. A survey of 179 countries by the Geneva-based International Labour Organisation said that, on current trends, women will take 475 years to achieve equality with men in "managerial" or "decision-making" positions in all sizes of companies.

While men have risen rapidly to the top of almost every female-dominated profession they have entered, women have no comparable success in traditional male dominated fields – such as the civil service.

For instance, males make up just 7 per cent of all qualified nurses in Britain. But above the level of senior nurse, men outnumber women, according to the Royal College of Nursing. "Men are more assertive because they are not worried about getting pregnant and interrupting their careers," says Mr Jamie Fleming, of the RCN.

Similarly, of 35,000 practising midwives in the UK, only 53 are male. But one, Mr Paul Lewis, who qualified in 1979, already has one of the country's top midwifery jobs – director of women's services at West London Hospital.

Though women may envy male success, there is a case for arguing that they should not gripe about the readiness of men to resort to the law to increase their job chances: the EOC argues that any act that increases awareness of sex discrimination by companies can only be beneficial to all in the long run.

OBSERVER

Patent nonsense

■ Education secretary John Patten seemed deeply hurt this week when Sir Claus Moser's National Commission on Education published its report without tipping him off in advance about its contents.

This caused a few raised eye brows at the NCE since it had bent over backwards to try to ensure that Patten would be one of the first to get an advance peek. Problem was Patten's officials refused to give out their boss's personal address or phone number.

Undeterred, the NCE agreed to bike an advance copy of the report to the home of Jim Coe, Patten's chief press officer, in leafy Hampshire. Coe is normally formidably efficient, but on this occasion, two days later, he had still not managed to press a copy of the report into his master's hands. So Patten was completely unable to comment.

How inconvenient.

Troops in or out?

■ Lord Healey, who as plain Denis Healey sent British troops into Northern Ireland 25 years ago when defence minister in a Labour government, yesterday delivered a *volte-face* of impressive stature.

Speaking at The Irish Fund of Great Britain's annual City luncheon, which despite its name was held in Whitehall, Healey revealed that his grandfather had been "a Fenian from Fermanagh", and that he himself was a "great believer in muck and magic."

But despite such a bellicose background, he chose to praise Prime Minister John Major for "opening the door to talks". There really was no practical alternative to talking to terrorists to solve political problems, he said.

If only that thought had occurred to him 2½ decades ago.

Phony excuse

■ New telephone discourtesies continue to proliferate: a colleague has just been telephoned by a computer to be told it was putting him on hold, while the person on the other end of the line finished off another call!

Common cause

■ Among all the clamour in Sweden over the planned Volvo-Renault merger, there has been a deafening silence from the Wallenberg family, the titans of Swedish industry.

But at last Peter Wallenberg, the current doyen of the dynasty, has pronounced – and it is welcome news for Volvo boss Pehr Gyllenhammar, who has long been the most powerful rival to

'Sod school, let's get some Beaujolais Nouveau'

Wallenberg industrial dominance. In a newspaper interview, Wallenberg backed the merger in principle, saying the three-year-old alliance between Volvo and Renault was a "half-cooked egg". His comments are a considerable disappointment to the anti-merger camp, led by Aktiespararna, the small shareholders association.

Everyone in Sweden remembers the occasion in 1979 when Marcus Wallenberg, Peter's late father, dealt a knock-out blow to Gyllenhammar's grand scheme of the time, to sell 40 per cent of Volvo to the Norwegian government in exchange for North Sea oil concessions.

Peter Wallenberg's comments should dispel rumours that he was working quietly against the current deal. But in fact any other public stance would have been strange, given that the Wallenbergs sold 50 per cent and management control of Saab cars to General Motors a few years ago.

Clear enough

■ As South Africa's leaders put the finishing touches to the interim constitution, would-be designers of a new national flag have been flooding the multi-party negotiating council – in charge of picking a fitting post-apartheid emblem – with their ideas.

Bombarded by some 70,000 submissions from the public, the council whittled them down to six – and then discarded those, calling in ad agencies (including Saatchi & Saatchi and Ogilvy & Mather) for a rethink. But Observer just can't understand why the powers that be did not go ahead with an early entry: a see-through piece of plastic, depicting transparency in government.

Common touch

■ If a number of their Lordships are looking a little green at today's state opening of parliament, do not adjust your set.

The explanation is that they have probably been enjoying the latest vintage to be introduced to the House of Lords cellars specially for the occasion – a lively little English Vin Nouveau from that well-known negociant, the Co-operative Wholesale Society.

Scaled down

■ Has samizdat spread West? Coincident with lengthening shadows over press freedom in the UK comes the launch of a monthly current affairs magazine. The New Reporter will be published over the desk top by Lizard Press in Cornwall and edited by husband and wife duo, ex-FT features editor John Bourne and ex-Guardian journalist Jean Stead. But the seat-of-the-pants nature of the operation seems to be underlined by Stead's admission that, presently, the money only stretches for the first six months. Hardly surprising seeing the cover charge for the 20-page mag is just one quid.

Spooked

■ Observer obviously got it wrong yesterday, as a much simpler explanation now emerges for why the ghost of John Julius Angerstein, the father of Lloyd's, might be found hovering around Coutts's branch in the Lloyd's insurance building. Naturally he has been investigating a phantom cash-point withdrawal spotted on his bank statement.

FINANCIAL TIMES
Thursday November 18 1993

Belgian austerity plan pushes up share prices as interest rates fall

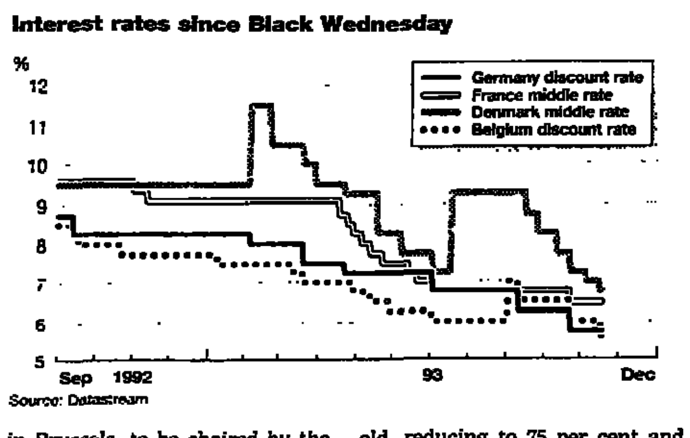
By Lionel Barber in Brussels

THE BELGIAN government agreed early yesterday to a wide-ranging austerity plan, prompting a reduction in two leading interest rates and a euphoric reaction in the country's financial markets.

After 16 hours of talks, ministers backed a three-point package which imposes curbs on social spending and limits wage increases to the rate of the inflation until the end of 1996. The pact also contains new measures to tackle rising unemployment, particularly among young people.

The Belgian National Bank responded by cutting the discount rate from 6 per cent to 5.5 per cent, while reducing the money market rate from 9.4 per cent to 8.3 per cent. The Belgian franc strengthened against the D-Mark to close at BFr21.25 on hopes the rate cut would help revive the economy.

Mr Jean-Luc Dehaene, prime minister, hailed the agreement as good for Belgium and for Europe. The plan draws some inspiration from the forthcoming European Commission white paper on competitiveness, growth and employment which will be the centrepiece of next month's EU summit



Source: Datastream

in Brussels, to be chaired by the Belgian presidency.

Among the social pact's chief points are a planned reduction of around BFr75bn ($2.1bn) in spending on health care, family allowances and pensions. The most sensitive proposal is to reduce family allowances in relation to family income, starting at a threshold of BFr750,000 a year.

In order to promote job creation, the government proposes to reduce sharply the costs of hiring labour. Businesses will be fully exempt from paying social costs in the first year when employing people under 26 years old, reducing to 75 per cent and 50 per cent exemptions in the second and third years. It also proposes job-sharing to increase the number of people in work.

To raise revenue, the government plans to raise the level of withholding tax on interest income from 10.3 per cent to 13.39 per cent. The level of withholding tax on dividends is to be cut from 25 per cent to 13.4 per cent.

The fate of the package will depend partly on whether Mr Dehaene's fragile centre-left coalition can win support among opposition parties and blunt opposition within Belgian's public sector trade unions. Rolling strikes were held in Belgium this week in protest against the pact.

Initial reaction among potential opponents was guarded. The Socialist party declared it had helped to make the austerity plan more equitable, but said it would remain vigilant on the application of the planned measures.

The Belgian economy is expected to shrink by 1.5 per cent this year. Belgium has the highest public debt in the EU as a proportion of gross domestic product.

The level of indebtedness has unnerved financial markets, and damaged confidence in Belgium's claims to be part of a currency club built around the D-Mark, particularly after the near collapse of the exchange rate mechanism in August, which followed sterling's exit from the ERM on so-called Black Wednesday in September last year.

Belgian government bonds climbed nearly a point after the cut in interest rates. The Bel-20 index of leading shares jumped 21.8 to close at 1,397, despite earlier concerns that the new taxes might undermine the positive impact of lower interest rates.

Currencies, Section II
World stocks, Section II

Passions flare as Nafta vote nears

Continued from Page 1

would be "academic", said Mr Bill Daley, the White House's Nafta co-ordinator.

An Associated Press count early in the afternoon suggested that the agreement had secured support from at least four more members than the 218 needed for passage. A more conservative tally from the House whip's office put it four votes short, but with the probability of picking up the difference.

Significantly, Congresswoman Marcy Kaptur, the Democrat from Ohio and a leading Nafta opponent, conceded that she thought Mr Clinton would carry the day, mostly, she added with scorn, on the back of support from the Republican party.

The president went running in a pro-Nafta T-shirt and said "it's never in the bag until the vote's in". He had despatched officials by the dozen to Capitol Hill to keep up the pressure, as had the anti-Nafta forces. Mr Ross Perot, the Texas populist, was behaving exactly like the lobbyists he constantly condemns as he toured the halls exhorting members to vote against.

On the House floor itself, the early part of the scheduled eight hour debate heard complaint after complaint that Mr Clinton had tried to buy a triumph by giving away the store. "Its Nafta Claus time at the White House," said Mr David Bonior, the Michigan Democrat and leading anti-Nafta strategist.

"Its $50bn in goodies and give-aways," shouted Mr Gerald Solomon, the New York Republican, citing favours he said had been given to the makers of manhole covers in Louisiana and aircraft manufacturers in California. Nafta, he charged, established an "unelected, unaccountable bureaucracy" that would undermine the US constitution.

But his assault on everything Mexican, especially its "64-year-old, one party dictatorship" of a government, was too much for Kika de la Garza, the Democrat from Texas who rules the House agriculture committee.

"I share blood with the Mexican people," he barked back, "and I resent the xenophobia I've been hearing on this floor." Reaching back into the last century, he turned on Mr Solomon and others who had spoken in the same vein. "They want a Mexican government run by the US, but let me remind you, we tried that and it didn't work."

Perhaps unconsciously, George Miller, the California Democrat, evoked memories of former British prime minister Harold Macmillan's words condemning the Thatcher government's attitudes to the British miners "who had helped defeat the Nazis". The American worker, Mr Miller declared, "had helped win the cold war and now are not even being given an afterthought".

£1m London fund to beat IRA bombs

By Jimmy Burns in London

LONDON-based financial institutions have contributed to a £1m ($1.49m) fund to reward those who give the police information on attacks by the Irish Republican Army on economic targets.

The identity of the fund's main sponsors is being kept secret but the National Westminster Bank, whose City of London office was badly damaged in a bomb attack in April, said it strongly backed the initiative.

The Bank said: "This is an important additional mechanism that will help pursue those responsible for terrorist attacks."

Scotland Yard said the initiative had been developed by anti-terrorist officers and managers of UK-based companies.

The money comes from dozens of companies around the country and will be administered by joint agreement between the police and the main sponsors.

It is not clear yet whether the full sum will be held in an escrow account or remain the responsibility of the companies until it is needed.

Scotland Yard said last night: "Our experience is that we do not have to provide financial inducement to get useful information on terrorist activities. But if there is a slightest chance that an individual might be tipped over by a reward, then we should take it."

The initiative was prompted by the commercial costs of recent IRA attacks.

Britain threatens US flights to Heathrow

Continued from Page 1

Lord Caithness, the UK aviation minister, described the US decision as a "provocative act quite contrary to our agreement with the US".

He added the UK government felt the move would prejudice BA because airlines cannot plan on a 60 days basis.

The UK is not taking immediate action, but has given notice it will withdraw permission for one flight a week each by American Airlines and United Airlines from Heathrow to Chicago and Washington respectively from 12 January – the date BA's code sharing approval expires, unless renewed by the US before then.

It is the first time the UK has threatened to block flights by US carriers in London, but Lord Caithness said the government felt it had no option.

He said the UK was committed to liberalisation, but the "open skies" negotiations with the US were a separate issue with the existing Heathrow agreement.

Washington had so far given no explanation for its action, except to state that the decision was linked to the current bilateral talks with the UK over a new aviation agreement.

Washington has come under heavy pressure from the big three US carriers – American, United and Delta – for allowing BA to form an equity partnership with USAir. The US carriers have also sought more access into Heathrow.

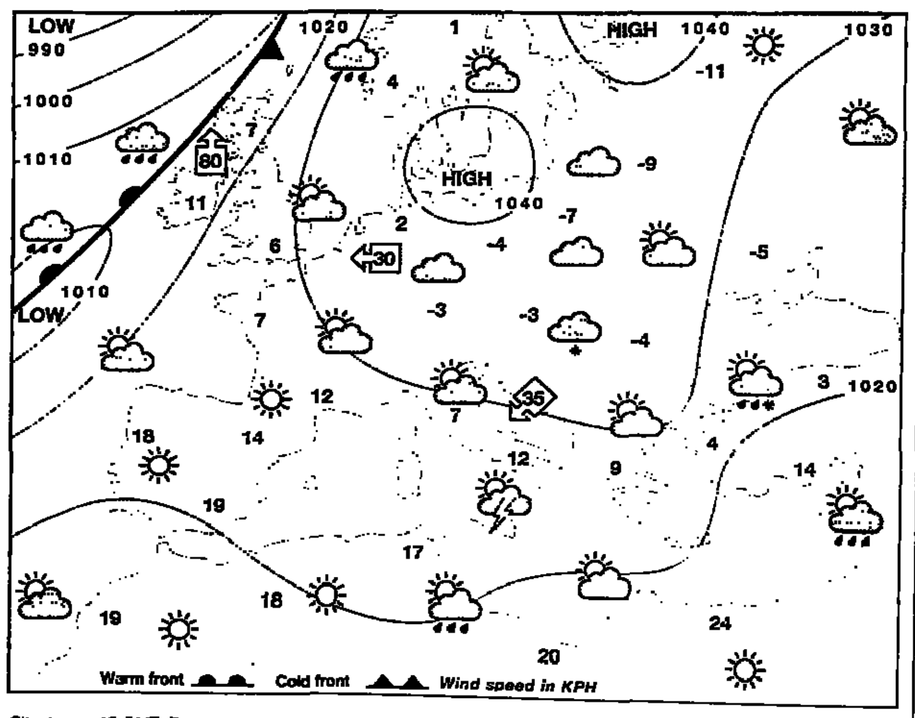
FT WORLD WEATHER

Europe today

A wide and stationary high pressure system over north-west Russia and the Baltic states will gain more strength over the next few days. It will continue to dominate conditions over continental Europe and much of Russia by bringing calm and wintry weather to most areas. Sunny periods will extend from southern Scandinavia to Spain. Cloudy conditions are expected over central Europe. A few flurries are likely over Poland and sleet over the Black Sea.
There will be showers in the central and eastern regions of the Mediterranean and an increased risk of thunder in the south of Italy. Frontal disturbances over the Atlantic will affect western regions of the British Isles.

Five-day forecast

The Russian high will continue to build and expand slightly towards Scandinavia. There will be an extensive easterly flow of air across Europe which will result in the movement of even colder air from the east.
Cloudy intervals are expected over central and eastern Europe with the likelihood of snow later on. Temperatures will drop over the UK as well, as the wintry air mass arrives during the weekend.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	29
Accra	fair	31
Algiers	fair	18
Amsterdam	sun	4
Athens	shower	11
B. Aires	cloudy	20
B.ham	fair	5
Bangkok	fair	35
Barcelona	fair	14
Beijing	sun	4
Belfast	rain	9
Belgrade	cloudy	-3
Berlin	cloudy	0
Bermuda	fair	26
Bogota	shower	19
Bombay	fair	32
Brussels	sun	5
Budapest	cloudy	0
C.hagen	fair	4
Cairo	sun	24
Cape Town	sun	23
Caracas	shower	29
Cardiff	cloudy	6
Chicago	fair	10
Cologne	fair	4
D' Salaam	shower	30
Dakar	fair	25
Dallas	fair	22
Delhi	sun	29
Dubai	sun	29
Dublin	rain	10
Dubrovnik	fair	11
Edinburgh	cloudy	7
Faro	fair	19
Frankfurt	cloudy	1
Geneva	fair	1
Gibraltar	fair	17
Glasgow	rain	7
Hamburg	sun	2
Helsinki	fair	-4
Hong Kong	cloudy	25
Honolulu	shower	29
Istanbul	shower	7
Jersey	fair	7
Karachi	sun	29
Kuwait	sun	24
L. Angeles	fair	21
Las Palmas	fair	22
Lima	cloudy	22
Lisbon	sun	17
London	fair	6
Lux.bourg	fair	2
Lyon	fair	4
Madeira	cloudy	21
Madrid	sun	13
Majorca	fair	17
Malta	shower	18
Manchester	cloudy	6
Manila	fair	31
Melbourne	cloudy	19
Mexico City	sun	21
Miami	fair	29
Milan	fair	7
Montreal	fair	2
Moscow	fair	-11
Munich	cloudy	-3
Nairobi	fair	26
Naples	fair	12
Nassau	fair	29
New York	sun	12
Nice	fair	12
Nicosia	shower	16
Oslo	fair	-2
Paris	sun	5
Perth	fair	19
Prague	cloudy	-2
Rangoon	fair	33
Reykjavik	rain	5
Rio	shower	29
Riyadh	sun	27
Rome	fair	13
S. Frsco	sun	15
Seoul	cloudy	8
Singapore	cloudy	26
Stockholm	fair	1
Strasbourg	cloudy	-2
Sydney	cloudy	32
Tangier	sun	20
Tel Aviv	fair	22
Tokyo	rain	16
Toronto	fair	3
Tunis	shower	18
Vancouver	rain	6
Venice	sun	8
Vienna	cloudy	0
Warsaw	cloudy	-4
Washington	sun	13
Wellington	cloudy	11
Winnipeg	snow	-1
Zurich	cloudy	-5

THE LEX COLUMN

Courtaulds catches cold

The message from chemicals companies gets bleaker by the day. Like BOC on Tuesday, Courtaulds sees no sign of an upturn. In addition to the cyclical pain, it is suffering renewed pricing pressure in some of its most profitable markets. The proximate cause is the credit squeeze instigated by the Chinese government, which has led to surplus capacity worldwide in products ranging from viscose fibre to cigarette tow. Yet it is a measure of the fragile balance that such incidents are destabilising. While consumption in developed markets remains stagnant – and price rises are elusive – chemicals companies will be vulnerable to nasty shocks.

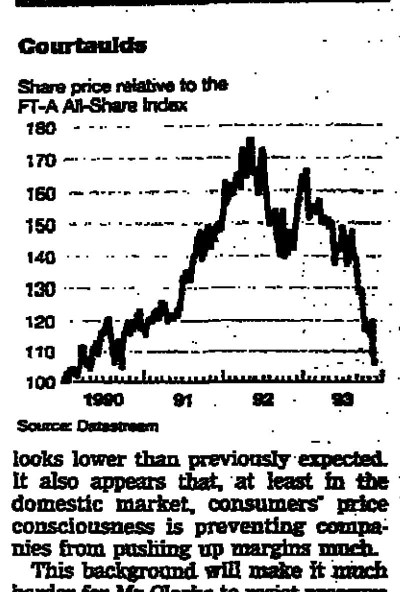
How long the China syndrome will last is unclear. On a rosy view, the credit squeeze will prove a hiccup in an otherwise uninterrupted pattern of growth. China has resumed buying acrylic fibres in recent weeks. The worry is that low-cost Asian producers which switched output into profitable markets such as US viscose will be loath to retreat even when China returns. Courtaulds would then have to live with lower margins. Exciting long-term prospects such as Tencel – Courtaulds' new fibre – cannot deliver earnings growth unsupported.

Whatever the eventual outcome, Courtaulds faces a tough year. The company continues to squeeze the most out of its existing business. The proposed joint venture with Hoechst in fibres should bring another slug of turnover for Courtaulds' management to get to grips with. The hope must be that another round of provisioning will carry it through 1994, by which time cyclical recovery may at last be within reach. Yesterday's 9 per cent fall in the shares suggests the stock market is unwilling to look that far ahead.

UK economy

After last week's somewhat disappointing news on wholesale price inflation and consumer credit, UK markets were beginning to accept that the chancellor's room for manoeuvre on interest rates was limited. In the light of yesterday's retail prices index, they may have to think again. October's small rise in clothing prices and an actual drop in household goods prices, as well as cuts on food, reveal little immediate inflationary pressure. There is a danger in reading too much into one month's set of figures, but the starting point for the inflationary blip forecast by the Bank of England now

FT-SE Index: 3120.0 (+22.5)



Source: Datastream

looks lower than previously expected. It also appears that, at least in the domestic market, consumers' price consciousness is preventing companies from pushing up margins much.

This background will make it much harder for Mr Clarke to resist pressure to follow continental European interest rates lower, especially if sterling continues to rise against the D-Mark. Fierce price competition among supermarkets should also damp inflationary expectations. In theory Mr Clarke could cut rates even if he announced minimal tax increases in the Budget. Since there is little prospect of the PSBR significantly undershooting the treasury's £50bn forecast, he has in practice an even better opportunity to tackle the deficit as well.

Land Securities

Having basked in glory throughout recession thanks to its defensive virtues, Land Securities has seen its halo dim as the property sector has revived. Although its shares have shot up from 355p to 734p since sterling's ejection from the Exchange Rate Mechanism, Land has still underperformed the sector by 12 per cent. Its weighting of the quoted property sector has dropped from 35 per cent of the total to 27 per cent over that time.

Nevertheless, Land should not be ignored altogether until the next recession looms. Its great rent collecting machine keeps rolling and its balance sheet strength makes it one of the precious few property companies capable of sustaining aprogressive dividend policy. Moreover, while property shares remain so far ahead of underlying market fundamentals, Land will continue to provide a relatively safe haven against economic setbacks. The company, however, remains cautious about prospects. Recovery is fragile, with occupational market rents continuing to fall in central London.

But Land will have to step up its acquisition programme if its shares are not to be left behind when recovery grips. It was a pity, therefore, that it was unable to commit more than £70m in the first half when the opportunities appeared greatest. The flood of institutional investors into property has now damped yields, making it difficult to buy on good terms. Nevertheless, Land's expertise may yet enable it to unearth some nuggets and it can easily gear up to spend £500m. That scale of spending may be required, though, if Land is quickly to re-ignite its rental and earnings growth.

Lucas Industries

After an agonisingly long wait, Lucas has finally got its man. It is more than a year since the company renewed its search for a chief executive to replace the retiring Sir Anthony Gill, and two years since the quest originally started. As a new leader for Lucas Mr George Simpson is a near-perfect candidate. His experience in helping to transform Rover will be invaluable, as will his aircraft industry connections with British Aerospace, so it is a pity that Lucas did not find him earlier. The delay will have done little to boost morale and, in that context, it is unfortunate that BAe now wishes to hang on to him until May.

Still, however belatedly, Mr Simpson is just the man to take the difficult decisions which Lucas faces. The company will have to examine how many expensive development projects it can afford to fund. Its applied technology division may need further rationalisation. Most importantly, he will need to motivate and encourage the management team to turn the company round in much the same way that he did at Rover.

All of that should underpin Lucas's nascent recovery. Unfortunately for the incoming chief executive, the company's share price already discounts most of probable earnings gains over the next two years. He may thus have to wait for his efforts to be reflected in the stock market. BAe, meanwhile, has suffered a heavy blow. Yet given Mr Simpson's talent for promoting good people to support him, it should be able to make good the loss.

which involve the constr[illegible] of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is to proceed.

In the Ukraine, unable and

and western nuclear [illegible]

Mr Rémy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

economy, supplies of [illegible] fuels and other factors over which the nuclear industry has little control.

FINANCIAL TIMES COMPANIES & MARKETS

Thursday November 18 1993

INSIDE

Hewlett-Packard disappoints

Hewlett-Packard, the US electronics and computer systems company, reported strong growth in sales and earnings for its fourth quarter. But its shares fell on fears of increased costs and stocks. Page 19

New head at Lucas
Lucas Industries, the UK automotive and aerospace components group, confirmed its chief executive would be Mr George Simpson, deputy chief executive of British Aerospace and chairman of Rover Group, BAe's vehicles subsidiary. Page 18

Future of Merrett in doubt
The future of the Merrett Group, one of the largest agencies at the Lloyd's of London insurance market, was in question last night after the breakdown of a US plan to provide new backing for the group. Page 18

Missile talks take off
French missile-makers' international negotiations are gathering pace. They will be crucial to any international industry reorganisation. Page 18

JR East slips
East Japan Railway made its first earnings announcement since its listing on the Tokyo stock exchange last month. The semi-privatised regional railway group said the economic slump led to a marginal fall in interim pre-tax profits. Page 20

Cock of the roost
Boston Chicken, a fledgling fast-food chain, became the new darling of Wall Street last week. It launched the most successful initial public offering in two years. Page 22

Commercial Union soars to £144m

Commercial Union, the largest composite insurer, increased pre-tax profits to £144.2m for the first nine months against £6.1m for the same period of last year. The shares rose 10p to close at 606p. "The substantial improvement in general insurance trading, especially in the UK, continued in the third quarter and life profits again made a significant contribution," said Mr Tony Brend (left), chief executive. Page 24

Land Securities edges ahead
Land Securities, the UK's biggest property company, lifted its interim dividend. Page 25

Vosper lessens warship dependency
Vosper Thornycroft Holdings, the UK shipbuilding and engineering group, is to lessen dependency on warship orders. Page 26

Barton Biggs cuts HK rating
London heard that Mr Barton Biggs, the Morgan Stanley strategist, had moderated his support for Hong Kong, by cutting its weighting in his global model portfolio. London SE, Page 35, World stock markets, Back Page

A dangerous future
A quarter of plants and animals are in danger of extinction in the next 30 years. Page 28

Market Statistics

Companies in this issue

Chief price changes yesterday

NEW YORK ($)			Elf Amst'n Cts	389	+ 9.5
Rises			Paribas	473.4	+ 13.4
Baker Hughes	23¼	+ 1¼	Redoute	954	+ 29
Falls			**Falls**		
Albert Fisher	62	- 4	Istel	521	- 12
1st Mist Fin	64	- 4	**TOKYO (Yen)**		
MK Telecom	37¾	- 4¾	**Falls**		
P&P	63	- 5	Daikyo Inc	876	- 70
Phelps Dodge	35¾	- 1¾	Daishowa Paper	991	- 109
PARIS (FFr)			Fuji Electric	489	- 24
Rises			Hazard Seiko	860	- 98
Accor	619	+ 23	Itoham Foods	803	- 38
CCF	192.5	+ 6.8	Nippon Shinpan	913	- 37

Frankfurt closed. New York prices at 12:30.

LONDON (Pence)			Thorn EMI	955	+ 23
Rises			**Falls**		
Amstrad	32	+ 6	Bensons Crisps	64	- 4
Calor Group	253	+ 11	Betterware	145	- 13
Enterprise	123	+ 5	Cable & Wire	473	- 17
Fitz Nat Fin	65	+ 4	Chrysalis	104	- 8
Harrisons Cros	183	+ 7	Courtaulds	432	- 44
Hedders	44	+ 4	Micro Focus	1410	- 83
Osprey Comm	38	+ 3½	Sarft	[illegible]	- 3½
P&O Defd	565	+ 23	RPS Group	48	- 10
P&P	62	+ 5	Tiphook	255	- 12
Perpetual	695	+ 24	Wace Group	280	- 16
Sainsbury (J)	370	+ 14			
Smith	125	+ 11			
Tesco	195½	+ 8½			

Hungarian bank in bail-out talks

By Nicholas Denton in Budapest

MAGYAR HITEL Bank, Hungary's largest commercial bank, yesterday revealed a capital shortfall that dwarfed earlier estimates and said it was discussing a Ft50-60bn ($500m-$600m) government bail-out.

The capital injection and deteriorating capital ratio figure was revealed by Mr Istvan Torocskei, managing director of state-owned Hitel Bank, in a newspaper interview before today's expected cabinet decision on the recapitalisation of Hungary's troubled banking sector.

The authorities propose to restore the capital adequacy ratios – the ratio of capital to risk-weighted assets – of the main banks to zero for this year's international accounts and to 4 per cent next spring. The standard set by the Bank for International Settlements is 8 per cent.

Mr Torocskei's estimate means Hitel Bank has a negative capital adequacy ratio of at least 16 per cent. The Ft50bn-Ft60bn of extra capital he is seeking represents a fifth of the bank's estimated risk weighted assets of Ft240bn.

The latest estimate of Hitel Bank's capital deficiency – the amount by which its liabilities to depositors exceed its assets – is double the 7.9 per cent projected for 1993 in a World Bank aide-memoire on Hungary's banking system written earlier this year.

That report said most of Hungary's banks were "technically insolvent", according to international accounting standards.

Hungarian officials and bankers rule out a major bank collapse, however. "Hitel Bank's liquidity has never been as good as now," Mr Torocskei stressed.

Mr Imre Tarafas, a deputy chairman at the National Bank of Hungary, cautioned that banks were exaggerating their loan losses in order to qualify for larger government injections.

There has been a substantial deterioration in the apparent position of the major banks, which officials blame largely on the recognition of bad equity investments and contingent liabilities, as well as the substandard loans earlier accounted for.

The government's planned recapitalisation of the sector is now likely to cost more than the Ft100bn estimated by the World Bank earlier this year.

The capital strength of Hitel Bank, Kereskedelmi Bank and Budapest Bank, the three large state-owned commercial banks, deteriorated after Hungary implemented a new bankruptcy law at the start of 1992 in the middle of deep recession.

About one in six companies has been hit by the legislation.

Weak krona aids Electrolux recovery

By Christopher Brown-Humes in Stockholm

ELECTROLUX, the largest European white goods manufacturer, has swung into a SKr198m (£16.5m) profit in the third quarter after financial items, from a SKr22m loss a year earlier.

The better-than-expected performance lifted the group's shares SKr18, or 6.3 per cent, to SKr305 yesterday. It took profits for the first nine months to SKr961m, a rise of 31 per cent.

Sales for the third quarter climbed 35.5 per cent to SKr24.6bn while operating income increased to SKr646m from SKr370m.

The figures reflected the benefits of a weaker krona, restructuring, and the development of new product ranges and showed problems in the North American and Spanish markets, which cost SKr500m during the first six months, were largely over.

Analysts said the third quarter performance reflected strong growth in operating income in outdoor products and industrial products. The outdoor business, which saw sales climb 66.6 per cent to SKr2.55bn, has been a major beneficiary of krona weakness with its strong orientation towards the US.

The picture within domestic appliances, the group's biggest division, was mixed, even though sales rose 32.1 per cent to SKr14.7bn. Bright spots were an increase in operating income in the group's US white goods operation and a bottoming out of the sharp downturn in the Nordic and Spanish markets.

However demand fell in Germany after growing throughout the first half, and Italy was one of a number of other countries to show weaker growth.

Currency factors helped group sales rise 26 per cent in the first nine months to SKr74.2bn, as volumes rose 4 per cent. Operating income climbed 20 per cent to SKr2.26bn.

Mr Staffan Ostlin, financial analyst at Carnegie in Stockholm, said: "Electrolux is through the worst but it is still looking at a tough market in Europe in 1994. European appliance sales could fall by 1 per cent next year." Carnegie expects full-year profits of about SKr1.4bn, compared with SKr1bn.

World Stock Markets, Back Page

Italians are lured towards the big sell-off

Haig Simonian reports on the launch of a long-awaited privatisation drive

For millions of Italians, the face of privatisation will be a former Miss USA, wearing a double-breasted suit and tie.

The lady from Credito Italiano, the state-controlled bank kicking off Italy's first big sell-off, may become as familiar as the "Sid" of British privatisations.

Tomorrow sees the start of the international roadshow for Credito Italiano, Italy's sixth biggest bank. Two weeks later, the shares will be priced, with placing begining on December 6.

The L10bn ($6m) advertising budget – directed through the press rather than television – highlights the scale of the task. Italy is going through unusually acute political convulsions, even by its standards, because of the corruption scandal and the prospect of elections next year.

Meanwhile, the earnings outlook for banks is extremely gloomy because of recession. Credito Italiano is heavily exposed through its traditional emphasis on lending to big companies – it is one of the five biggest lenders to the deeply indebted Ferruzzi group.

The advertising campaign must also raise public awareness of other privatisations in Credito Italiano's wake. In February 1994, the treasury plans to float up to 30 per cent of the financial services group, Istituto Mobiliare Italiano. Soon after, Iri, the state holding company which is selling the 67 per cent Credito Italiano stake, will dispose of its 57 per cent interest in Banca Commerciale Italiana, another big bank.

By the end of next year, flotations should be concluded of the Ina insurance group and the Enel electricity generating authority. In 1995 Stet, Italy's state telecommunications group, is to be fully privatised after a long-awaited reorganisation. Later investors may get a first taste of the state's lucrative oil and gas activities, after the Eni state holding company is restructured.

It is not clear how much Italy's treasury, struggling to bring down one of the world's biggest budget deficits, will make from the sell-offs. Officials are wary of issuing forecasts, and next year's budget omits privatisation income.

Credito Italiano should net about L2,000bn. Receipts from IMI depend on how much is sold. Mr Piero Barucci, the treasury minister, said this week it would be 25-30 per cent. That is twice as much as first forecast and implies proceeds of about L1,500bn.

Estimating the income from BCI is much more difficult, as it depends on whether the government will accept the creation of a "hard core" of institutional investors, grouped around Mediobanca, the Milanese merchant bank. Depending on the premium for control, analysts reckon Iri's shares could be worth about L2,400bn.

Next month's start to privatisation ends a long and tortuous process begun in summer 1992, when prime minister Mr Giuliano Amato started clearing the way for asset sales.

Much of the work during his government's term of office was technical, with a shoal of essential, but often undramatic, legal steps needed to change the public entities into joint stock companies and cut a swathe through layers of party placemen on many of the public sector boards.

Among the obstacles to be overcome were ingrained party political patronage and MPs' fear of plant closures in their constituencies. Trade unions were far from supportive in view of likely redundancies in overmanned state industries. Ideologically, privatisation was no certain vote winner.

But public acceptance for sell-offs, pushed ahead by the present government of Mr Carlo Azeglio Ciampi, was undoubtedly reinforced by the groundswell of support for change provoked by the corruption scandal.

Privatisation has now reached "the point of no return", according to Mr Barucci. Whoever comes to power after next year's elections will be unable to stop the bandwagon.

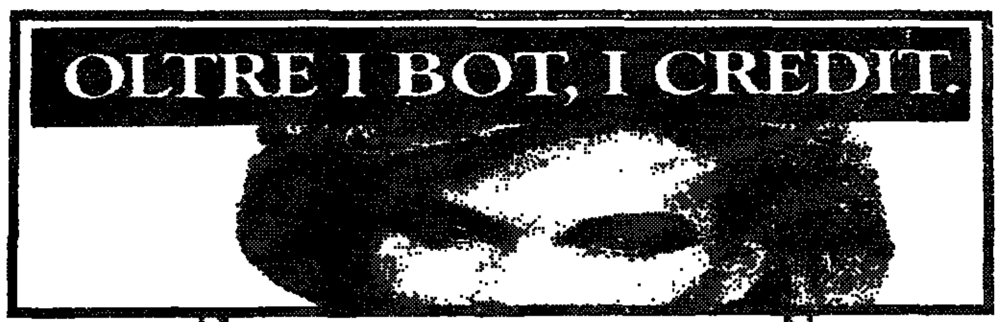
But ministers are still crossing their fingers that the first deal goes well. The Milan bourse remains thin by the standards of London or Frankfurt, although turnover has surged this year because of new laws forcing banks to deal on the bourse and introducing computerised screen-based trading.

But while daily volumes have risen almost tenfold from the lows of summer 1992, Milan often remains dependent on fickle foreign investors. Attempts to boost domestic investment in equities through new legislation have so far had little effect. A long-awaited law to create private pension funds, which could revolutionise institutional share buying, has so far failed to produce a single taker. Mr Barucci admitted the legislation would have to be redrawn.

Measures put forward in 1992 to stimulate private equity purchases using tax breaks have run aground because of a ministerial wrangle about the fiscal consequences.

Such setbacks explain the stress being placed on preparing the market, with daily full-page advertisements featuring Credito Italiano's smiling lady. Her face will not only launch a deal, it should also condition Italian investors to expect a thousand more.

Countdown to flotation



Privatisation candidate	Adviser	Lead managers	Timing	Size of stake*/ estimated value
Credito Italiano	JP Morgan	Credito Italiano, Goldman Sachs	Early Dec	67% L2,000bn
Istituto Mobiliare Italiano	CSFB	IMI, SG Warburg	Early Feb 1994	25-30% L1,500bn
Banca Commerciale Italiana	JP Morgan	BCI, Lehman Brothers	Mid April 1994	57% L2,400bn
Ina	Schroders Fox Pitt Kelton	IMI, BCI, Credito Italiano, San Poalo, Goldman Sachs	Early June 1994	NA
Enel	Kleinwort Benson	NA	By December 94	NA
Eni (energy side)	NM Rothschild	NA	1994-95	NA
Stet	NA	NA	1994-95	NA

* Ordinary shares

Nutricia says food recall will cut profits

By Ronald van de Krol in Amsterdam

SHARES in Nutricia, one of Europe's largest producers of baby food, fell sharply yesterday after a warning from the company that a recall of 1m jars of baby food would affect its profit forecast for 1993 and could influence results in 1994.

Nutricia, a Dutch-based company which is 30 per cent-owned by Unigate of the UK, is recalling some lines of its Olvarit brand of baby food because jars containing pork and beef may have traces of a disinfectant. The recall affects jars in the Netherlands, Belgium, Greece and Portugal.

More than 1m jars held in Nutricia's warehouses will also be destroyed.

Nutricia's shares fell steeply on the Amsterdam Stock Exchange yesterday, closing down Fl 13.20 ($6.95), or 8.7 per cent, at Fl 138.20. In London, Unigate's shares ended the day down 12p at 355p.

Nutricia, the biggest European baby food producer after Nestlé of Switzerland, said the source of the disinfectant was not its Olvarit factory in Wells, England, but one of its Dutch suppliers of pork and beef. The disinfectant, p-TSA, is used to clean meat-cutting tables and equipment.

The Olvarit jars were recalled after traces of disinfectant were found during a routine check in the Netherlands by food inspectors. Other Olvarit products which contain either no meat or other types of meat were not included in the recall.

The company said there was no danger to health unless consumption of the food took place frequently and over a long period. It noted this is not the normal feeding pattern for babies.

Nutricia was unable to estimate the cost of the recall, but a spokesman said the likely cost would be "large". The recall would affect its profit forecast for 1993, which had been of a "clear" increase from 1992 net profit of Fl 87.2m. The recall may also influence results next year.

Meals, drinks and cereals for babies and toddlers accounted for around 16 per cent of Nutricia's 1992 sales of Fl 1.25bn. About one-third of total turnover is generated by infant formula. Other products include specialised dietary foods for the elderly, athletes and people with nutritional disorders.

China squeeze hits Courtaulds

By Paul Abrahams in London

COURTAULDS, the chemicals and fibres group, yesterday warned that the Chinese credit squeeze had hit sales of three of its most important businesses. The company explained that European and US prices had been affected by Asian production being diverted from the slowing Chinese market. The shares fell 44p to 432p.

Pre-tax profits rose 9 per cent in the six months to September 30, to £96.4m ($143m), helped by a £24.4m net gain on disposals. Operating profits fell from £92.5m to £86.4m on turnover of £991.7m, against £911.7m.

The results were flattered by currency changes. At constant exchange rates, turnover and operating profits would have been £46m and £5.8m lower respectively. Courtaulds warned it would make a restructuring provision of £35m-£45m for its north American and European coating operations. Capital spending would also be considerably higher in the second half.

Mr Sipko Huismans, chief executive, said the anti-inflation drive in China had serious knock-on effects. "Production of acrylics and acetate tow that were previously going to China have been diverted to Europe, although some Chinese acrylic buying has lifted prices a bit." Surplus viscose from China had started reaching the US and would adversely affect second-half sales.

Mr Huismans said he was not overwhelmed by the recovery in the US economy. "Consumer confidence has returned ... but you need confidence to sanction capital projects."

Mr Huismans said sales of Tencel, its innovative fibre, were constrained by capacity. The board announced it would invest $134m (£90m) in a new 30,000-tonnes-a-year plant in Alabama. Another plant would be built, at Kelheim in Germany or Grimsby in the UK.

Net borrowings were down from £300m last September to £183m. Net interest, however, was up from £5.2m to £15.4m, partly due to a lower pension fund credit and less return on sterling deposits.

There was a net cash inflow of £35.9m compared with an outflow for the same period last year of £66.5m. Earnings per share rose from 18.1p to 19.5p. The dividend was increased from 3.8p per share to 4p.

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Details, Page 26

Merrett Group fails to secure Travelers' backing

By Richard Lapper in London

THE future of the Merrett Group, one of the largest agencies at the Lloyd's of London insurance market, was in question last night after the breakdown of a US plan to provide new backing for the group.

Merrett said that Travelers, the US insurance company, had withdrawn a scheme to underwrite business alongside syndicates managed by Merrett on a so-called consortium basis.

Travelers, recently taken over by Primerica, the financial services group, would have bought a large stake in the Merrett managing agency, in a deal which would have helped offset a sharp decline in support for Merrett syndicates from Names – the individuals whose assets have backed the Lloyd's market. Travelers refused to comment last night.

Merrett is seeking the backing of other Lloyd's agents, but it is is understood that talks earlier this week between Merrett and AJ Archer Holdings have been unsuccessful.

The affair completes an unhappy year for Mr Stephen Merrett, a powerful underwriter and chairman of the Merrett Group. He resigned as deputy chairman of the market following pressure from Names and their agents in August.

Executives of Primerica are said to have viewed the Merrett deal as an unnecessary complication at a time when their plans to take over Travelers were incomplete.

Mr Bob Clements, president of Marsh & McLennan Companies, which owns the world's largest broker, which helped engineer the Travelers deal, yesterday reaffirmed support for the group, describing criticism of Mr Merrett as "personalised and without regard to underlying fundamentals".

A Bermuda-based company, set up this year by Marsh and JP Morgan, to provide reinsurance for Merrett syndicates would continue to operate.

However, Marsh, and JP Morgan, would not be taking stakes in the Merrett agency, a move they had agreed as part of the Travelers plan. "There is no point in us taking a stake except in so far as that was a catalyst to attract other capital," said Mr Clements.

Merrett will seek support from members' agents, which handle the affairs of Names. But agents were downbeat about group prospects after meeting Mr Merrett yesterday.

SE Banken cuts losses further

By Christopher Brown-Humes in Stockholm

THE recovery in the Swedish banking sector was underlined yesterday when Skandinaviska Enskilda Banken, the leading commercial bank, announced sharply reduced losses for the first nine months.

The bank's operating loss fell to SKr92m ($11.2m) from SKr3.73bn as it benefited from increased revenues, cost-cutting and reduced loan losses.

The third-quarter profit of SKr206m built on the SKr310m second-quarter surplus, but was insufficient to reverse losses of SKr606m in the first three months. The healthier trend underscored the bank's decision to withdraw its request for state aid in August and rely instead on a SKr5.3bn rights issue to rebuild its capital base.

Operating profits before credit losses rose 64 per cent to SKr7.63bn, showing successive improvements in every quarter. Lower interest rates positively influenced the performance, as did SKr560m in gains from bond sales. Costs were reduced by 2 per cent to SKr5.69bn, partly due to staff cuts.

Credit losses at SKr7.72bn remained high, but they were down 8 per cent compared with last year. The bank said 44 per cent of write-offs related to the real estate sector, where collapsing values did more than anything to provoke the crisis in the Swedish financial sector.

Net problem loans at September 30 were SKr21.5bn, down 17 per cent from the total at the end of last year.

SE Banken also announced it had sold its remaining shares in Skandia, rounding off a saga that began in 1990 when it tried to forge a giant Scandinavian banking and insurance combine by buying a 28 per cent stake in the insurer.

Krona's weakness helps Sandvik

By Christopher Brown-Humes

SANDVIK, the Swedish engineering group, improved profits by 23 per cent to SKr1.44bn ($173m) in the first nine months. The advance came without any upturn in business conditions.

The revival has been attributed mainly to the weak Swedish krona, which enabled the group to push up sales by 27 per cent, to SKr15.8bn, and orders by 30 per cent to SKr16.5bn. Sales fell 5 per cent if currency factors and acquisitions are excluded.

Mr Per-Olof Eriksson, chief executive, said demand remained "very weak" in Europe and Japan, but the outlook was more positive in other parts of the world.

He highlighted Latin America, Australia, China and south-east Asia as areas of strong growth, and noted a "gradual increase" in North America.

The biggest expansion of sales came in North America, with 56 per cent growth to SKr3.16bn, followed by Latin America, where sales climbed 43 per cent to SKr997m.

Steel was the group's top performing division, due to a four-fold rise in profits, to SKr354m from SKr89m. This was achieved despite falling prices.

Rover chief is picked to head Lucas Industries

By Andrew Bolger in London

LUCAS Industries, the UK automotive and aerospace components group, yesterday finally confirmed that its next chief executive would be Mr George Simpson, currently deputy chief executive of British Aerospace and chairman of Rover Group, BAe's vehicles subsidiary.

The Midlands-based group has been trying for months to secure the services of Mr Simpson, 51, who is given much of the credit for the revival in Rover's fortunes. His appointment will go a long way to allaying City concerns over Lucas's protracted management succession.

Lucas declined to give details of Mr Simpson's salary, but dismissed rumours that he had been offered £1m a year and a £3m ($4.47m) bonus.

There was some surprise that Mr Simpson will not be joining Lucas until May 1 and that Sir Anthony Gill, chairman and chief executive since 1987, will continue as non-executive chairman. However, it is expected that Sir Anthony, 63, will only stay on for as long as it takes to choose a new chairman, with Mr Simpson's full involvement.

Mr Simpson said: "I am delighted to be joining the successful Lucas team and to be taking over its leadership from Tony Gill. My experience at Rover and British Aerospace tells me that there are few more competitive business sectors than automotive and aerospace and I fully understand the magnitude of my new challenge."

Last year Sir Anthony was asked to postpone his retirement until the succession was sorted out.

Lucas was cited as a possible takeover target after recession caused profits to slump and its shares touched a five-year low of 78p in September last year. They have since recovered to 177p as the group has cut thousands of jobs and sold several businesses. The restructuring helped pre-tax profits double to £50.3m this year. Rover analysis, Page 24; See Lex, Page 16

France sharpens missile strategy

David Buchan examines global reorganisation of the defence industry

French missile-makers' international negotiations are gathering pace. Matra is pledged to form a joint missile company with British Aerospace (BAe) by the end of the year. Aérospatiale is locked into similar discussions with Deutsche Aerospace (Dasa) with a view to merging their missile interests into a single unit with a market share rivalling Hughes of the US.

The role of the French missile companies will be crucial to any industry reorganisation. For one thing, there are more of them than in any other European country. In addition to Matra and Aérospatiale, there is Thomson-CSF, the heavyweight of French defence electronics, and a host of smaller electronic suppliers.

France has also cut its defence equipment budget by less than other European countries in the last three years, and plans to increase it slightly next year, to FFr103bn ($17.5bn).

The French defence sector's total turnover has declined from its high point of FFr124.5bn in 1990 to FFr113bn last year, largely due to the drop in export deliveries, to FFr29bn.

New orders, however, hit a record FFr45.7bn last year, with Taiwan's decision to buy Dassault's Mirage jets and Matra's missiles, and Abu Dhabi's purchase of the Leclerc tank made by France's state-controlled Giat Industries.

A recent parliamentary report forecast that 40,000 jobs would disappear from the defence and aerospace sectors, but that the precipitous fall-off in civil aviation business and space research was mostly to blame for this.

Mr Henri Conze, procurement chief in the French defence ministry, believes the current merger talks among missile-makers may set in train a wider reorganisation in defence electronics.

Mr Conze, who runs Europe's biggest defence equipment budget, predicts that "1994 will be the year of mergers and concentrations in the European missile industry".

The most advanced of the talks is the planned joint venture between Matra and BAe, whose missile products and markets complement each other. Mr Dick Evans, BAe chairman, recently confirmed that the marriage was likely to be consummated by the end of this year.

Formal control will be split evenly between the two parent companies. However, Matra is confident of gaining management control because, even without its Taiwan order, its dowry of missile orders is larger than BAe's.

Aérospatiale acknowledges that its talks on merging its missile business with Dasa are less advanced, and points out that the two companies took more than two years to negotiate their Eurocopter joint venture. However, the two companies have already worked together for 20 years in their joint Euromissile arrangement.

In any event, the German orientation of Aérospatiale should do the company no harm with Mr Conze, who has proposed setting up a Franco-German arms agency as the possible precursor of the European arms agency, foreshadowed in the Maastricht treaty.

Might these two joint entities then merge to form one big European missile-maker? Matra, BAe, even some people at Dasa, favour that. Aérospatiale says it is open-minded at this stage. So is its owner, the French government.

"It is not impossible," says Mr Conze, "though at present it is impossible to say whether the two joint ventures would stay apart, or come together, or have some gentleman's agreement to share markets or products."

However, he believes that the imminent mergers in the actual manufacture of missiles could lead to changed relationships in other parts of the missile business.

These include "upstream" designers of entire weapons systems, such as Thomson and BAe, which are also to be found "downstream" as suppliers of missile components. There is also French companies such as Dassault Electronique, SAT, and Sagem; German companies such as TST (part of Dasa) and BGT (part of Diehl); and British companies such as GEC-Marconi.

"Sorting out the missile-makers is the easiest part, but other areas may have to be tackled," says the French arms chief.

Having formed a joint venture with Shorts of Belfast on very short-range missiles last March, Thomson-CSF is standing aloof from the current missile merger game. Its president, Mr Alain Gomez, has a more urgent dossier on his table: the government's desire to know soon whether the defence company should be privatised with or without Thomson Consumer Electronics (TCE).

The privatisation of Aérospatiale is clearly more distant. And this is not just because of deepening losses - FFr 870m in the first half of this year - which Mr Francois Léotard, the defence minister, hopes soon to remedy with a capital increase.

Presenting the company for sale before the 1995 election would almost certainly provoke a row with President Mitterrand, who has on several occasions proclaimed his opposition to putting France's nuclear missile-maker inte-private hands.

Siemens launches agreed bid for Teleco Cavi

By Haig Simonian in Milan

SHARES in Teleco Cavi, the Italian maker of power and telecommunications cables, were suspended yesterday after Siemens of Germany launched an agreed takeover bid.

Siemens is spending L104bn ($62.5m) to buy control of GCR, the family holding company which owns just over 50 per cent of Teleco Cavi's ordinary shares.

Almost 70 per cent of GCR is owned by the founding Bruni family, which is selling its entire stake. The remainder is held by BICC, the UK industrial group, and Fornara, an Italian industrial holding company.

Siemens will have to launch a public tender offer for the remaining Teleco Cavi stock, in line with new Italian stock exchange rules. However, the German group said it intended to maintain the company's stock-exchange listing.

Siemens said the purchase was part of a strategy to consolidate its position in the rapidly changing European cables business.

Teleco Cavi, which is based in the Abruzzo region of southern Italy, made group net profits of L256bn last year on sales of L256bn.

Swiss travel group slides 20% at nine-month stage

By Ian Rodger in Zurich

REISEBUERO Kuoni, the Swiss travel agency group, said net income tumbled 20 per cent in the first nine months of 1993 to SFr35m ($23.35m), reflecting depressed demand and prices in the travel sector. Sales were off 6 per cent to SFr1.8bn.

The group, in which Kaufhof of Germany last year bought a 50.1 per cent stake (with 26.4 per cent of the votes), forecast that net income in the full year would fall 18 per cent to SFr40m.

It described this performance as "satisfactory given market conditions".

Business was off in all regions, except the UK and Germany. In the UK, the group's biggest market outside Switzerland, sales were flat in Swiss franc terms, at SFr343m, in the first nine months, reflecting near-16 per cent growth in sterling terms. German sales were up 15 per cent to SFr117m.

The group, controlled by the Kuoni-Hugentobler foundation, said revenue from tour operating was up 4.5 per cent, while retail business was off 4.3 per cent to SFr400m.

Business travel turnover was down 9.1 per cent to SFr155m.

which involve the construction of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is to proceed.

In the Ukraine, unable and

and western nuclear ...

Mr Rémy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

economy, supplies of ... fuels and other factors over which the nuclear industry has little control.

Hewlett-Packard shares dip in spite of strong growth

By Louise Kehoe in San Francisco

HEWLETT-Packard, the US electronics and computer systems company, reported strong growth in sales and earnings for its fourth quarter. But concerns about increased costs and inventories drove down the shares $2¼ to $75¼.

Net earnings for the quarter rose to $298m, or $1.18 per share, compared with $68m or 28 cents in the same period last year when the company took a restructuring charge of 36 cents per share.

Net revenue increased to $5.7bn from $4.3bn in the same quarter of 1992, a 32 per cent increase.

"This quarter was a big improvement over last year's fourth quarter," said Mr Lewis Platt, HP chairman, president and chief executive. "But upward pressure on cost of sales continued, and inventory levels were higher than we'd like."

HP's cost of sales for the fourth quarter was 61.4 per cent of net revenue, against 58.1 per cent in the fourth quarter of last year. Price cuts and a continuing shift toward products carrying higher sales costs were factors, the company said.

Inventories increased 41 per cent to $3.7bn from $2.6bn at the end of the last fiscal year. Part of the increase was attributable to new product introductions, the company said.

Operating expenses rose 11 per cent to 30.2 per cent of net revenue from 35.9 per cent in the year-ago quarter.

For fiscal 1993, revenue rose 24 per cent to $20.3bn, from $16.4bn the previous year. With revenues of $15.6bn from computer products, service and support, HP has become the second-largest US computer company, after IBM, overtaking Digital Equipment.

Net earnings for the year were $1.2bn, or $4.65 per share, compared with $549m, or $2.18, last time after special charges. Before these charges, HP earned $972m, or $3.85 per share last year.

Mr Platt said the company would launch important new products in several sectors in fiscal 1994 and efforts to reduce expense structures would remain a high priority.

Net return edges ahead at Maple Leaf Foods

By Bernard Simon in Toronto

MAPLE Leaf Foods, the Toronto-based food processor controlled by the UK's Hillsdown Holdings, reported a small rise in third-quarter earnings, with improved agri-business and baking results offsetting slimmer margins from processed foods.

Net earnings climbed to C$20.8m (US$15.8m), or 26 cents a share, from C$19.4m, or 24 cent. Sales rose to C$778.5m from C$695m.

Mr Brent Ballantyne, named yesterday as president and CEO, predicted that fourth-quarter earnings would also exceed a year earlier.

Maple Leaf said the cost-cutting and rationalisation in its feed, poultry and rendering operations have paid off in sharply higher earnings.

But earnings from processed foods were hit by higher raw material costs and a move by consumers to cheaper products.

The company said it aims to improve performance by launching new products and cutting costs, giving greater attention to private labels, and by further inroads into the US market.

EDS in multimedia joint venture

By Andrew Adonis

EDS, the computer services subsidiary of General Motors, yesterday announced a joint venture with France Telecom and US West, the US regional Bell operator, to provide interactive financial transaction services to the home and business markets.

The joint venture, called Interactive Transaction Partners, marks a further advance in the multimedia ambitions of EDS and the telecoms groups.

EDS, which will provide the processing, has taken a 50 per cent stake in the joint venture. France Telecom and US West, which have developed the applications software, each have a 25 per cent stake. The investment plans of ITP are undisclosed.

ITP will offer integrated home banking, bill payment and bill presentation services. It will be accessed by phone or personal computer with modem, with the potential for interactive television and screen phones as they enter the market.

Mr Neil Marcous, manager of EDS's Electronic Commerce Division, said the joint venture was a further step on the "information superhighway, integrating more kinds of consumer-oriented relationships".

Services will be available in the US from next April, and may be extended to Europe.

The three partners are leaders in the drive to produce multimedia services. Earlier this year British Telecommunications engaged in unsuccessful negotiations to buy EDS, which has operations in more than 30 countries.

US West, which serves the Rocky Mountain states and Pacific Northwest, earlier this year made a $2.5bn investment in the cable entertainment operations of Time Warner, the second largest cable operator in the US and a leading producer of filmed entertainment. With its Minitel project, France Telecom is one of the most pioneering of Europe's public telecommunications operators in the provision of inter-active services.

Mr Francois Olibet, president of France Telecom Intelmatique, said that "seamless multimedia services" like home banking would be the key to future success in the telecoms market.

Fund buys US hotel chain

By Patrick Harverson in New York

A MORGAN Stanley property fund has agreed to pay about $600m for the Red Roof Inns hotel chain in a deal that is new direction for the fund.

Until now, the $840m Morgan Stanley Real Estate Fund has bought distressed properties from banks and the Resolution Trust Corporation, the government agency handling the sale of assets owned by bankrupt savings and loan companies.

With the Red Roof deal, it is branching out into going concerns. Red Roof is a solidly profitable chain of 210 low-cost motels spread across the US, with one of the highest occupancy rates in the industry.

Morgan Stanley said the current management will continue to operate the chain.

Mr Paul Kazilionis, president of the fund, said: "Red Roof Inns is a well-known brand name with a loyal clientele. The acquisition fits with our strategy of identifying and acquiring attracting real estate opportunities along with their successful existing managements."

Red Roof was owned by a private trust created by the chain's late founder, Mr James Trueman. The Morgan Stanley fund will pay the trust an undisclosed amount of cash, and assume the existing mortgage debt on the chain's motel properties. The total amount comes to just over $600m.

Morgan Stanley Real Estate Fund was established in 1991 with money from the New York investment bank and a group of institutional investors. It has invested in properties with capital worth more than $2bn. Recent acquisitions include the California resort of Carmel Valley Ranch, and the Doral Telleruide ski resort hotel in Colorado, both in joint ventures with the Westcor Partners investment group.

Adolph Coors upgrades charge estimates

ADOLPH Coors, US brewer, expects to take a restructuring charge in the fourth quarter of 1993 in the range of $100m to $125m, rather than the previous estimate of $65m to $75m, Reuter reports.

The company also said it signed an agreement in principle with Madrid-based El Aguila to buy a 500,000 barrel brewery in Zaragoza, Spain, allowing it to produce beer in Europe, and so reducing its reliance on American exports for European sales.

Thomson third quarter quiet

By Bernard Simon in Toronto

THOMSON Corporation, the Canadian-controlled travel and publishing group, blamed adverse exchange rates and competitive pressures in several of its key publishing businesses for near-stagnant third-quarter earnings.

Net earnings edged up to US$226m before preferred share dividends, or 39 cents per common share, from $221m, or 38 cents a year earlier. Sales dipped to $1.86bn from $1.94bn.

If exchange rates had remained unchanged from average 1992 levels, earnings would have been 44 cents per share in the latest period, and sales $2.12bn.

Nine-month earnings rose to $249m, or 42 cents a share, from $244m, or 41 cents.

The brightest spot so far this year has been the travel business. Although UK-based Thomson Travel's nine-month operating profit dipped to $143m from $146m, the company said that there was an 18.6 per cent jump measured in pounds sterling.

Thomson Tours' volumes rose by 11 per cent last summer, and sales of winter holidays are 16 per cent ahead of last year.

The company said summer 1994 bookings have been "exceptionally high" since its brochures were launched in late August, leading to a "significant" improvement in market share.

An official ascribed the improvement to a stronger UK economy and last summer's poor weather, which has encouraged many people to book a holiday in the sun for next year.

In the publishing and newspaper divisions, poor performances have been posted by the UK and US professional, business and academic publishing groups, as well as by Thomson's Canadian newspaper chain. In particular, business information publishing in the US was hit by lower pharmaceutical advertising.

But UK regional newspapers' operating profits were substantially ahead of last year, partly due to a gradual improvement in advertising, and partly to the sale earlier this year of Thomson's loss-making free-sheet papers.

Vard ferry group pre-losses up after 9 months

VARD, the troubled Norwegian cruise and ferry group, saw nine-month pre-tax losses widen substantially to NKr148.9m ($17.8m) from NKr3.23m in the same period last year, writes Karen Fossli in Oslo.

The deterioration is due largely to higher operating and interest expenses, foreign currency losses on debt, and an extraordinary charge of NKr69.8m.

Group revenue rose to NKr5.46bn from NKr4.11bn and operating profits advanced slightly to NKr478.6m from NKr437.9m, as interest income increased to NKr13.37m from NKr6.47m. Interest expenses, however, rose to NKr500.34m from NKr330.22m last year.

Vard said its Kloster Cruise subsidiary was being restructured, the results of which would take some time to be reflected in the company's accounts.

Philip Morris shares hit by warning of cost cuts

By Frank McGurty in New York

SHARES in Philip Morris fell yesterday morning after the US tobacco and food products group revealed it might take a fourth-quarter charge against earnings.

In a filing with the US Securities and Exchange Commission, Philip Morris, the world's largest cigarette-maker, said it would present several options for cutting costs in its tobacco and food operations at a board meeting next Wednesday.

The stock shed $1⅛ to $55⅞ in early trading after Merrill Lynch downgraded its rating on the issue.

The SEC filing, however, was not unexpected.

Revenues from its US tobacco operations have fallen sharply since April, when the company slashed cigarette prices by 40 cents a pack as part of a strategy to stem a declining market share for Marlboro and other premium brands. In the third quarter, net income was down 25 per cent from the 1992 level.

In October, the group warned that lower cigarette pricing and the market's continued volatility would "make fourth-quarter earning comparison unfavourable".

Mr Ron Morrow, an analyst with Smith Barney Shearson, the New York securities house, said he "would not be surprised" if the cost-cutting measures under consideration included redundancies and plant closures. He estimated the charge at about $100m.

In the final quarter of 1992, the group posted net income of $1.9bn, or $1.34.

Last week, Philip Morris said it would raise wholesale cigarette prices by four cents a pack, matching an increase by RJR Nabisco and other cigarette manufacturers.

Analysts responded to the move by upgrading their estimates of 1994 earnings.

GM outlines plan for return to profit

By Richard Waters

MR JOHN SMITH, General Motors' chief executive and president, outlined plans to return the carmaker's troubled North American operations to an after-tax profit in 1994.

It aims to increase US sales, taking the group's market share to 33-34 per cent from around 31 per cent, and further cut costs.

Contributing to the turnround this year have been a $2bn cut in the cost of materials and a 12 per cent reduction in assembly time to 24-25 hours. Also, 1993 US sales are expected to reach 14.1 vehicles, up 7 per cent from last year.

In its last quarter, GM's North American operations made a net loss of $1.12bn, after plant closure costs and other items which resulted in a net charge of $389m.

The company is planning a 5 per cent increase in vehicle sales in the US in 1994, to 14.8m. Even if this target is not met, Mr Smith said GM should make the planned return to net profitability in North America.

Mr Gerald Knetchtel, head of North American operations, said next year's targets are not based on further job cuts. The sale of various units and normal attrition would push staff levels down to around 245,000 next year, he said.

Brambles warns of 10% downturn

By Nikki Tait in Sydney

BRAMBLES, the Australian transportation, waste management and equipment services group, warned yesterday that profits in the current year could be up to 10 per cent lower than in 1992-93. This would be a second successive year of falling profits; in the 12 months to end-June, after-tax earnings dipped from A$180m (US$118m) to A$166m.

The warning was provided by the company's chairman, Mr Gary Pemberton, who told Brambles' annual meeting that current trading projections "indicate that there is virtually no upside on last year, but a downside containable within ten per cent".

"We must accept that the maintenance of full-year profitability at the 1992/93 level is at some risk," he added.

Mr Pemberton said the sudden change in the US hazardous waste market and the downturn in European economies were the two major factors dominating Brambles' short-term outlook.

"Given the realities of the current situation in Europe and the US, profit forecasting is difficult, particularly this year when we are anticipating an uneven half to half result with a number of factors pointing towards a stronger second half," he commented.

He noted there had been some UK improvement, Germany was "showing signs of levelling out", but France remained "under pressure".

Rocketdyne cuts up to 1,000 jobs

ROCKWELL International's Rocketdyne division is to cut its workforce by up to 1,000 people, or about 15 per cent, over the next year, Reuter reports.

The US rocket engine producer, which does most of its business with NASA, said the move reflects a reduction in funding for space programmes. Rocketdyne employs about 6,800 workers.

Falling demand and strong yen hit Casio Computer

By Michiyo Nakamoto in Tokyo

CASIO Computer, the leading maker of digital watches and electronic calculators, yesterday reported a plunge in parent pre-tax profit as it suffered the impact of the sharp economic downturn in Japan and the rapid rise of the yen.

Casio suffered a 67 per cent fall in pre-tax profits to Y2.8bn ($26.16m) on sales that were 7 per cent down to Y159bn. Operating profits plummeted 82 per cent to Y1.3bn.

The company blamed the severe drop in private capital spending and personal consumption as well as the devastating impact of the yen's rapid rise for the deterioration in its business performance.

Casio is revising its forecast for consolidated sales and profits in the full business year due to the sharp rise of the yen and continuing weakness in major economies. It now forecasts sales of Y415bn rather than Y450bn as predicted in May and pre-tax profits of Y11bn, rather than Y14.5bn.

For the parent company, Casio forecasts sales of Y330bn and pre-tax profits of Y9.3bn.

The company was particularly hard hit by falling overseas demand, particularly in Europe.

Calculator sales were modestly up on the same period last year but electronic clocks and watches, electronic musical instruments and electronic office equipment all suffered a setback.

Cost-cutting drive puts Daihatsu back in black

By Emiko Terazono

DAIHATSU Motor, the Japanese carmaker belonging to the Toyota Motor group, returned to the black during the first six months to September, due to cost-cutting efforts, including the reduction of seasonal workers.

The company posted pre-tax profits of Y551m ($5.15m) against an interim loss of Y4.9bn a year earlier. Operating profits totalled Y643bn, up from a loss of Y4.3bn, while after-tax profits totalled Y536m against a loss of Y4.9bn. Half-year sales, however, fell 7.2 per cent to Y362.8bn.

Daihatsu said it lost Y7.2bn in profits through foreign exchange losses and the fall in sales, but managed to generate profits of Y12.1bn by cutting 1,000 seasonal employees.

Vehicle sales during the April to September term fell 6 per cent to 383,067 units. Domestic sales fell 8.8 per cent while exports rose 6.1 per cent. Domestic sales fell in all vehicle categories, with sales of agricultural machinery especially weak due to cold summer weather and typhoons.

For the full year to March, Daihatsu expects sales to fall 8.3 per cent to Y720bn. Pre-tax profits of Y2bn are expected against a loss of Y4.4bn, while after-tax profits are forecast at Y2bn, up from a loss of Y3.5bn last year.

Newbridge in fourfold leap

NEWBRIDGE Networks, the Ottawa-based specialised telecommunications equipment maker, has reported a fourfold profits increase for the first half ended October 30, writes Robert Gibbens in Montreal.

First-half profit was C$69.1m (US$52.30m), or 87 cents a share, up from C$16.8m, or 24 cents, a share a year earlier, on revenues of C$243m against C$123.5m.

Second-quarter profit was C$37.1m or 47 cents a share against C$10.6m or 15 cents a share on revenues of C$128m against C$67.4m.

TPC puts block on new sugar venture

By Nikki Tait

PLANS by CSR, the Australian sugar and building products group, to form a major sugar industry joint venture with the Mackay Sugar Co-Operative Association and London-based trading house E.D.& F. Man, have run into opposition from the Australian Trades Practices Commission.

The joint venture was announced in August, when CSR said it would join with Mackay Refined Sugars - a joint arrangement between Man and MSCA - to form a white sugar production, marketing and distribution operation. CSR was to hold 50 per cent of the company, with MSCA and Man each taking 25 per cent. CSR would have contributed refinery assets in Perth, Melbourne and Auckland, while Mackay would have supplied its new low-cost refinery, being built in Queensland, along with bulk storage facilities.

The partners claimed that the venture would create a refined sugar export industry in Australia, which has traditionally exported raw sugar only. Annual turnover of the joint venture company was forecast at A$500m (US$327m).

Yesterday, however, the TPC claimed that the proposal would substantially lessen competition in the refined sugar industry and push up prices for sugar and products containing it.

The TPC said that the companies were pooling refining capacity which would have given them a joint market share of over 50 per cent and that "having combined the assets, the companies would not compete".

It suggested that CSR was insulating itself from competition which would otherwise have been generated by a new Mackay refinery, and said that the proposed export benefits had been overstated. The TPC also rejected the argument that imports would be an effective constraint on prices, given high freight and handling costs.

Aoki holds talks on hotels sell-off

By Michiyo Nakamoto

AOKI, a medium-sized Japanese construction company which owns the Westin Hotels chain, said that it was in discussion with a number of parties with the aim of selling its Westin interests in North America.

The companies being put up for sale include the operating company of the Westin Hotels chain in North America and the North American hotels. Sale of those businesses would in effect end Aoki's hotel business in the US, which makes up about two-thirds of the company's hotel interests.

Aoki plans to use the funds it raises through the sale of most of its stock in the Westin Hotels chains and the North American operating company based in Seattle to reduce its debt burden, which totalled over Y300bn ($2.8bn) at the end of March this year.

It hopes to be able to conclude a deal as early as before the end of the year.

The construction company also plans to sell its holding in Westin International Europe, the operating company based in Hamburg, Germany, which runs some of its North American hotels and hotels in Europe, if conditions are suitable.

Aoki acquired the Westin Hotels and Resorts chains jointly with a US company in 1988 for $1.35bn of which the Japanese group paid Y1.1bn. The company is not revealing what kind of price it is looking for the hotels.

Aoki has extensive operations outside of Japan and operates hotels in Brazil, Panama, Taiwan and Shanghai as well as the US and Germany.

With the business downturn in the west, however, the company is looking to concentrate its energies on the growing Asian market.

JR East blames sluggish railway operations for pre-tax downturn

By Emiko Terazono in Tokyo

EAST JAPAN Railway, the semi-privatised regional railway group, said sluggish railway operations due to the economic slump caused a marginal fall in interim pre-tax profits.

The earnings announcement, JR East's first since its listing on the Tokyo stock exchange last month, reflected rising operating costs amid lower revenues. Pre-tax profits for the first six months to September fell 1.3 per cent to Y73.5bn ($687.85m) while overall revenue fell 0.6 per cent to Y995.2bn. After-tax profits fell 6.5 per cent to Y38.1bn.

The company has not benefited from its stock flotation since the proceeds have gone to JNR Settlement, which holds debts and shares of seven regional companies created in 1987 through the break-up of national operator, Japan National Railways.

JR East's half-year revenue from its railway operations eased 0.7 per cent to Y954.8bn, while operating profits fell 3.8 per cent to Y231.7bn. Revenue from its other businesses including real estate leasing and retailing operations, rose 2.1 per cent to Y40.3bn, although operating profits fell 28.7 per cent to Y5bn.

For the full year to March, the company expects a 0.2 per cent rise in pre-tax profits to Y101.2bn on a 0.6 per cent fall in overall revenue to Y1,968.2bn.

Meanwhile, securities industry officials yesterday expressed worries over further flotation of state-owned companies following the recent decline in share prices believed to have been triggered by the JR East flotation.

The Japanese government wants to float Japan Tobacco, a state-owned tobacco and salt company by the end of next March, and the remaining seven railway groups next fiscal year. Mr Masaru Aratani, chairman of Japan Securities Dealers Association, said that he was cautious over the impact of listing large-capital state owned companies.

Mr Aratani said the JR East listing came at a bad time for the sluggish stock market. His comments counter those of Mr Minoru Nagaoka, Tokyo stock market president, who has denied claims the market's decline was caused by JR East.

Kraft buys Bulgarian chocolate

By Theodor Troev in Sofia

KRAFT Jacobs Suchard, the Swiss foods group which is part of Philip Morris of the US, is buying 80 per cent of Republika, Bulgaria's leading chocolate producer. The remaining 20 per cent will be offered to employees. The total investment for purchasing and modernising Republika will amount to $18m over the next five years.

This is one of the first successful large privatisation deals in Bulgaria involving a western partner.

Mr Bernhard Hubert, the vice-president of Kraft Jacobs Suchard responsible for central and eastern Europe, said the acquisition was an important step in the east European strategy of the company.

Kraft Jacobs Suchard, which employs 32,000 people in 20 European countries, is expected to have operating revenues of $9bn in 1993. Since last year, it has positioned itself in eastern Europe through the acquisitions of confectionery, wafer and coffee producers in Hungary, Slovakia, the Czech Republic, Poland and Lithuania.

In Bulgaria, the company will continue to market Republika's local products and will also introduce some of its brands, such as Milka tablets and Prince Polo wafers.

Republika, the country's oldest confectionery manufacturer, was founded in 1905. Last year, it produced over 8,000 tonnes of confectionery. Its output satisfied up to 35 per cent of the Bulgarian market.

NEWS DIGEST

SAB buys 80% of Hungary's largest brewer

SOUTH African Breweries, the country's largest consumer goods company, yesterday announced that it was paying $50m for an 80 per cent stake in Kobanyai Sorgyar, Hungary's largest brewer, writes Nicholas Denton in Budapest.

SAB is also committed to investments of $40m over four to five years at the state-owned Kobanyai Sorgyar.

Kobanyai's capacity will be increased to 2.5m to 3m hectolitres of beer per year, with particular emphasis on the brewery's Dreher brand. The State Property Agency, the privatisation authority, named SAB as preferred bidder in June this year.

Holden marks resurgence

HOLDEN, the Australian subsidiary of General Motors of the US, said its net profit jumped to A$61.8m ($40.30m) in the year to June 30 from A$36.9m in 1991-92, Reuter reports from Melbourne.

Holden said the 67 per cent rise in net followed a 10 per cent rise in revenue to A$1.95bn. It said a resurgence in the six-cylinder car market and a continuing focus on efficiency and productivity targets helped the company to boost profits.

Koito lists dimmer pre-tax results

KOITO, a leading Japanese maker of automobile lighting equipment, reported interim parent pre-tax profit 6.1 per cent lower at Y1.94bn ($18.13m), compared with Y2.06bn a year ago, AP-DJ reports from Tokyo.

Net profit was 5.5 per cent lower at Y896m.

Cement in profit

ST LAWRENCE Cement, eastern Canada's biggest cement producer, reported net profits of C$3.98m ($3.01m), or 8 cents a share, in the third quarter, compared with a loss of C$2m, or 5 cents, a year ago, writes Robert Gibbens.

CONTRACTS & TENDERS

LEGAL NOTICES

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By: The Chase Manhattan Bank, N.A.
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November 18, 1993

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Wall St savours Boston Chicken

The fast-food chain had a successful IPO. Frank McGurty reports

Boston Chicken, a fledgling fast-food chain, became the new darling of Wall Street last week. It launched the most successful initial public offering in two years, as investors snapped up the shares in the belief that the company, a relative newcomer, would be more than just flavour of the month.

The recipe that attracted investors to Boston Chicken is a promising marketing concept and an experienced management team. Analysts, however, questioned whether the willingness of small investors to take a risk was prudent.

In last Tuesday's IPO on the Nasdaq over-the-counter market in New York, the stock sizzled from the opening bell. With 1.9m shares, or about 10 per cent of the company, offered at $20 each, trading started at $45¼, and the issue climbed as high as $51 before closing at $48½.

At that price, the company, which two years ago operated only 33 restaurants, was valued at more than $800m.

Ms Linda Killian, analyst at Renaissance Capital of Greenwich, Connecticut, said there had been much talk before the launch of the IPO, intensifying buying pressure from small investors who were excluded from the $20-a-share offering.

The company, based in Chicago, started eight years ago with one restaurant in Newtonville, Massachusetts, just west of Boston, and has quickly grown to 175 locations. It was acquired by a group led by several former executives of Blockbuster Entertainment in March 1992.

Chicken, of course, is no stranger to fast food. The new wrinkle pioneered by the Boston Chicken is roasting it on a spit, rather than frying it. The menu is rounded off with family-style side-dishes, such as mashed potatoes, corn bread and steamed vegetables.

So the chain provides fast-food customers with healthy, back-to-basics options to burgers and french fries, while retaining snappy service and low prices.

With Americans becoming more health conscious, the concept seems to have struck a chord and many industry observers believe it will grow in popularity.

Sales of roasted chicken this year are expected to reach $2bn, compared with sales of fried chicken at $7.5bn, according to the annual Top 100 survey of fast-food restaurants conducted by Nation's Restaurant News, a trade publication.

Boston Chicken is emphasising take-away meals, which account for about 70 per cent of its business, a much higher proportion than at other chains.

Mr Mark Stephens, chief financial officer, said a central pillar of their marketing strategy was to capitalise on the increasing number of take-away meals.

Most analysts agree Boston Chicken has strong potential. However, in the light of its limited operating experience, many have raised questions over its stock-market value.

As a result, the issue has started to lose some of its lustre. By the close of trading on Tuesday, the share price stood at $42.

There is sufficient evidence to support a sceptical view. Revenues last year were a mere $8.3m, and the company posted a net loss of $5.7m.

Even at Tuesday's $42 a share, the stock was trading at about 76 times estimated 1994 earnings of 55 cents a share. In 1995, net income is estimated by analysts at 85 cents a share.

Mr David Lebowitz, senior vice-president and director of research at Republic New York Securities, said it was difficult to justify the current stock price.

"Boston Chicken is too young and too small to apply the normal yardsticks," he said.

In the short term, at least, Boston Chicken is poised for substantial growth. The company said revenues in the nine months of 1993 were $28m, against $5m last year, and it has become marginally profitable. Full-year turnover will reach $35m-$40m and $55m-$60m in 1994, according to Renaissance Capital's estimate.

The management has outlined an ambitious expansion plan. The chain has tripled in size over the past year and within three years, the number of restaurants is expected reach 600, with locations in most leading US markets.

Boston Chicken will finance the building programme with the $55m proceeds from the IPO, plus a concurrent offering of 900,000 restricted shares to management.

Ms Killian said one of the pivotal elements of the chain's successful expansion since 1991 was its "tight control of franchising".

Unlike most fast-food chains Boston Chicken provides a large portion of the development capital for new locations in the form of loan. The debt is later convertible into equity, giving the company greater control over the network.

Mr Scott Beck, the company's chairman and a former vice-chairman of Blockbuster, used a similar financing scheme in the 1980s to develop the video-rental enterprise into the 3,600-store empire with annual revenues of $1.2bn. Clearly, many small investors are hoping for a repeat performance.

Steyr-Daimler-Puch expects deeper losses

By Patrick Blum in Vienna

Steyr-Daimler-Puch, the Austrian motor group, expects losses to rise sharply this year to about Sch320m ($27m). This would represent a marked deterioration compared with the 1992 deficit of Sch65m. Parent company losses are expected to be about Sch180m.

The company said yesterday the sudden worsening of its position stemmed from the downturn in the automotive industry world-wide. Several group companies are running below capacity. The armoured vehicles division has stopped production because of government export restrictions on military equipment.

Group turnover for the first six months of 1993 was Sch5.59bn, down Sch2.54bn on 1992. The group said small improvements may be achieved next year, but a return to profit would have to wait until 1995.

The company has been restructuring with the workforce falling from about 7,700 employees to 5,500 this year. Further lay-offs are expected before the end of the year.

SDP is 71.2 per cent owned by Creditanstalt Bankverein, the large Austrian bank in which the state has a 49 per cent stake but 70.5 per cent of the vote. The bank wants to sell most of its industrial holdings.

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18 November 1993

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In accordance with the provisions of the notes, notice is hereby given that for the interest period 18 November 1993 to 18 February 1994 the notes will carry an interest rate of 5% per annum. Interest payable on the relevant interest payment date 18 February 1994 will amount to US$63.89 per US$5,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

Wells Fargo & Company

US$200,000,000
Floating rate subordinated capital notes due 1998

The notes will bear interest at 3.5625% per annum for the interest period 18 November 1993 to 18 February 1994. Interest payable on 18 February 1994 will amount to US$91.04 per US$10,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

The Republic of Venezuela
U.S. $211,139,000
Collateralized Floating Rate Bonds due 2020
USD Discount Series B

In accordance with the provisions of the Bonds, notice is hereby given that for the Interest Period from November 18, 1993 to May 18, 1994 the Bonds will carry an Interest Rate of 4.3125% per annum. The interest payable on the relevant interest payment date, May 18, 1994 will be U.S. $21.68 per U.S. $1,000 principal amount.

By: The Chase Manhattan Bank, N.A.
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November 18, 1993

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November 18, 1993, London
By: Citibank, N.A., (Issuer Services), Agent Bank

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£200,000,000
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In accordance with the Terms and Conditions of the Notes, notice is hereby given that the new interest rates and periods in respect of the subject Notes are as follows:-

[illegible]

By: Citibank, N.A. (Issuer Services)
November 18, 1993, London

CITIBANK

Shawmut Corporation
U.S.$50,000,000
Floating Rate Subordinated Notes
Due 1997

Notice is hereby given that the Rate of Interest has been fixed at 5% and that the interest payable on the relevant Interest Payment Date February 18, 1994 against Coupon No. 36 in respect of US$10,000 nominal of the Notes will be US$127.78.

November 18, 1993, London
By: Citibank, N.A. (Issuer Services), Agent Bank

CITIBANK

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Announce with effect from 17th November 1993, Henderson TR Exempt North American Fund has been merged following an approved Scheme of Amalgamation into Henderson North American Exempt Trust.

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071 410 4104

FT-ISMA INTERNATIONAL BOND SERVICE

The FT-ISMA International Bond Service, published on Monday to Friday in the Financial Times, shows daily prices provided by the International Securities Market Association, for a selection of the most actively traded Eurobonds and related securities, picked from the sectors which best represent current market conditions. The service sets out to include certain "benchmark" issues within the spread available, while still trying to maintain a broad spread of borrowers and currency groups. Selections are reviewed regularly by the Financial Times and the International Securities Market Association.

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INTERNATIONAL CAPITAL MARKETS

Belgium interest rate cuts inspire continental markets

By Sara Webb in London and Patrick Harverson in New York

EUROPEAN and UK government bond prices soared yesterday, propelled by hopes of lower interest rates.

Belgium provided the main inspiration for the continental bond markets as the combination of a government economic recovery plan and sharp cuts in key interest rates lifted bond prices by as much as a point.

GOVERNMENT BONDS

The Belgian 10-year yield spread over German government bonds – which was about 120 basis points earlier in the month – narrowed from 109 to 94 basis points at one stage yesterday but ended at around 98 basis points.

The Belgian government's package of spending cuts and tax increases, aimed at reducing the deficit while lifting *competitiveness* and employment, allowed the central bank to cut its key interest rates.

The Belgian rate moves inspired rallies in several other European markets, raising hopes of interest rate cuts elsewhere, while expectations that the North American Free Trade Agreement would pass contributed to the markets' generally enthusiastic mood.

■ FRENCH bonds ended sharply higher on hopes of a near-term rate cut by the Bank of France.

Although the German market was closed for a public holiday yesterday, the Liffe bund futures contract ended a quarter of a point higher on the day, having traded in a range of 99.56 to 100.35 and ending at around 100.27.

While there is some speculation that the Bundesbank may announce cuts in the key German interest rates today at the regular council meeting, dealers said the majority view *appeared to be for an easing in* December. The keenly-watched money supply figures are due this week while cost-of-living data is expected next week.

■ NEWS of a sharp fall in inflation and a weaker-than-expected increase in retail sales led to a sudden jump in UK government bond prices and renewed speculation of a base rate cut in the near future.

Gilt prices rose across the board and ended as much as a point higher on the day. The rally enabled the Bank of England to sell the remainder of its outstanding tap issues.

■ LONG-DATED Japanese government bonds bounced back to life late in Tokyo trading, *with the result that* cash and futures prices ended higher on the day.

The market started on a weak note as medium-dated issues – which enjoyed much of the recent rally in the bond market – underperformed and dragged the rest down.

However, shortly before the futures market closed the market surged on strong domestic investor interest and dealers covering short positions.

■ THE Spanish Treasury will make its first issue of 15-year bonds in the domestic market *on December 2, the longest* maturity previously being 10 years, Reuter reports from Madrid. The issue will carry a coupon of 8.20 per cent, with amortisation in 2009. The Bank of Spain said the minimum amount in this first tranche would be Pta100bn.

■ AFTER two days of declines, longer-dated US Treasuries posted solid gains yesterday morning as hopes rose that Nafta would be approved by Congress.

By midday, the benchmark 30-year government bond was up 11/32 at 101 11/32, yielding 6.123 per cent. At the short end of the market, the two-year note was unchanged at 99 31/32, to yield 4.042 per cent.

Although trading remained quiet, with many retail accounts staying out of the action until the Nafta vote, dealers were confident enough that the House of Representatives would pass the trade pact that they pushed longer-dated prices higher throughout the morning. Nafta is seen as bullish for bonds because analysts believe it will act as a buffer against global inflation.

FT FIXED INTEREST INDICES

	Nov 17	Nov 16	Nov 15	Nov 12	Nov 11	Year ago	High *	Low *
Govt.Secs.(UK)	103.54	103.13	103.07	102.74	102.62	94.06	103.60	93.28
Fixed Interest	123.78	123.47	123.34	123.35	123.32	109.01	125.20	108.67

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 125.20 (10/9/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	Nov 16	Nov 15	Nov 12	Nov 11	Nov 10
Gilt Edged Bargains	127.4	149.2	98.5	97.8	124.0
5-Day average	118.3	134.6	126.1	128.4	127.0

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	120.6665	-0.317	6.89	6.53	6.55
BELGIUM		9.000	03/03	114.6000	-0.750	6.92	7.04	7.10
CANADA *		7.500	12/03	105.2000	-0.250	6.78	6.78	6.70
DENMARK		8.000	05/03	111.3500	-0.200	6.37	6.44	6.42
FRANCE	BTAN	6.750	11/98	101.9953	+0.432	5.26	5.44	5.48
	OAT	6.750	10/03	106.0000	+0.640	5.91	6.08	5.90
GERMANY		6.000	09/03	101.2450	-0.200	5.81	5.89	5.67
ITALY		10.000	08/03	104.6100	+0.320	9.481	9.46	8.60
JAPAN	No 119	4.600	06/99	108.5154	-0.186	3.02	3.82	3.24
	No 157	4.500	06/03	106.8358	+0.204	3.55	3.49	3.54
NETHERLANDS		7.000	02/03	106.4600	-0.170	5.79	5.85	5.81
SPAIN		10.900	08/03	115.4500	+0.650	8.48	8.69	8.55
UK GILTS		7.250	03/98	104-21	+10/32	6.02	6.13	6.13
		8.000	06/03	109-09	+21/32	6.67	6.85	6.81
		9.000	10/08	118-02	+25/32	7.02	7.19	7.17
US TREASURY *		5.750	08/03	101-05	+5/32	5.59	5.65	5.20
		6.250	08/23	101-18	+6/32	6.13	6.19	5.81
ECU (French Govt)		8.000	04/03	111.4000	+0.400	6.35	6.50	6.33

London closing, *New York morning session. Yields: Local market standard. † Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents). Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Argentina issues $500m in 10-year global bonds

By John Barham in Buenos Aires

ARGENTINA is to issue about $500m in 10-year dollar-denominated global bonds next month, *refinancing debt falling* due in December.

Mr Daniel Marx, finance under-secretary, said yesterday the new bonds would "be an updated model of Argentina's traditional Bonex [external bonds] and a blend of global Eurobonds".

Argentina had $3.82bn in dollar-denominated Bonex outstanding in July 1993.

They enjoy an unrivalled reputation in the local market since the government has never skipped an interest payment and never postponed repayment.

Argentine private and government borrowers have been issuing record volumes of bonds on the Euromarket.

However, the federal government has been rolling over redemption, existing debt or reshaping its debt profile rather than raising fresh funds.

Mr Marx said the new fixed interest Global Bonex would be priced early next month.

The issue is being handled by Merrill Lynch and Salomon Brothers of the US and Argentina's Banco Rio. The bonds will be listed in US, European, Asian and Latin American markets.

They will also be registered with the US Securities Exchange Commission.

Mr Marx said previous Bonex issues had been cumbersome, with settlement requiring physical exchange of certificates, which inhibited trading. The new global Bonex should benefit from improved settlement procedures and therefore become more liquid.

Statoil borrows $1bn through five-year loan

By Antonia Sharpe

STATOIL, the Norwegian state oil company, has raised $1bn through a five-year syndicated loan. The loan will re-finance two *expiring revolving credit* facilities totalling $600m and raise fresh funds for the company.

Bankers involved in the deal said that the lack of high-quality corporate borrowers seeking to raise funds in the syndicated loans market had *enabled Statoil to achieve* aggressive pricing.

Banks had been willing to agree to the terms in the hope that it would lead to more business with Statoil.

Statoil said that 41 banks had been involved in the expiring facilities but that a core group of 19 banks were participating in the new loan.

Deutsche Bank and JP Morgan are joint co-ordinators of the loan, which is due to be signed on November 24.

Kepco launch hampered by investor fatigue

By Antonia Sharpe

INVESTOR fatigue appeared to be hampering the launch yesterday of the first global bond offering by Korea Electric Power Company, South Korea's partially-privatised power *utility*.

Lead manager Lehman Brothers said it had seen strong demand for Kepco's $1.35bn offering of 10-year global bonds following its international roadshow and that it had built up a large book of more than $1bn.

However, Lehman Brothers acknowledged that other banks in the group were finding that their bond allocations were selling slowly. Syndicate managers in the group said that in some cases, investors who wanted to buy the bonds had placed their orders through Lehman Brothers.

They noted that many investors had retreated to the sidelines and were reluctant to take on new investments so close to the end of the year. In addition, some investors were having to make credit decisions because of Kepco's single-A rating.

As a result of the feedback from investors and the recent uncertainty in the US Treasury market, the yield spread on Kepco's bonds was set at around 90 basis points over 10-year Treasuries, up from a target of 75 to 80 basis points. The bonds are due to be priced *today*.

If Kepco's bonds are priced at 90 basis points over US Treasuries, they will carry a coupon of about 6¼ per cent. Traders said this coupon should appeal to investors looking for high-yielding paper.

Lehman Brothers expects about 65 per cent of the bonds to be placed in the US where Kepco is well-known as a result of its issues in the Yankee market, the US domestic bond market for foreign borrowers. US investors tend to be more receptive than their European counterparts to borrowers with single-A ratings. The remainder of the bonds are likely to be placed equally in Europe and Asia Pacific.

Elsewhere, there was a flood of new issuance in the Euroyen sector and in the Samurai market, the Japanese domestic bond market for foreign borrowers.

The Bank of Greece raised Y100bn in the Samurai market through a Y40bn offering of four-year floating-rate notes and a Y60bn offering of 12-year bonds. Lead manager Nomura said the different maturities *reflected funding needs*.

Syndicate managers at Japanese banks said they expected more yen-denominated issues to emerge before the end of the year since many borrowers believed that Japanese interest rates were close to the bottom of their cycle.

A number of European sovereign borrowers are expected to tap this sector soon.

The managers added that *borrowers could achieve* favourable terms in the yen market because Japanese investors were willing to pay a little more in order to avoid having any foreign exchange exposure.

INTERNATIONAL BONDS

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
KEPCO(a)	1.35bn	(a)	(a)	Dec.2003	0.375	-	Lehman Bros.
Sudwestdeutsche Landesbk.‡*	100	(b)	109.95R	Nov.1998	(b)	-	Kidder Peabody Intl.
LTCB(c)‡	100	(c)#	101.55R	Dec.2003	2.00R	-	LTCB Intl.
YEN							
Bank of Greece(d)	60bn	5.1#	100.00R	Dec.2005	0.80R	-	Nomura Secs. (Tokyo)
Bank of Greece(e)‡	40bn	(e)	100.00R	Dec.1997	0.55R	-	Nomura Secs. (Tokyo)
Marubeni Corp.(f)‡	20bn	(f)	100.20R	Mar.1998	0.25R	-	Goldman Sachs Intl.
Nissho Iwai(g)‡	10bn	(g)#	100.25R	Mar.1998	0.25R	-	DKB International
Isvelmer(h)‡	10bn	(h)	100.00	Dec.1998	0.15	-	Yamaichi Bank

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. *Private placement. §Convertible. ΦWith equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Global issue. To be priced 18/11/93. Indicated launch spread of about 90bp + US 10-year Treasury. b) Coupon pays 3-month Libor + 2.00%. Fees undisclosed. c) Initial coupon of 6-month Libor + 0.43% then 8% fixed thereafter. Callable at 100% on 10/12/98. d) Samurai Bond. Tranche A of Y100bn issue. e) Samurai Bond. Tranche B of Y100bn issue. Coupon pays 3-month Libor + 0.65%. f) Short first coupon. One-off investor put option at par on 7/3/97. Initial annual coupon of 2.7% *until 7/3/97 then* pays 6-month Libor - 0.125%. g) Short first coupon. Initial semi-annual coupon of 3.4% until March 1997 then pays 6-month Libor - 0.125%. h) Coupon pays 3-month Libor + 0.35%.

Argentaria sale raises Pta170bn for Spain

By Tom Burns in Madrid

ARGENTARIA, the banking corporation controlled by the Spanish government, netted about Pta170bn for the Spanish exchequer yesterday when it placed 25 per cent of its equity on the domestic and international markets in its second public share offering this year.

The share issue, which took place just six months after the the corporation's first share offer, brought the government-*held equity stake in Argentaria* down to just over 50 per cent.

In spite of setting a price of Pta6,050 per share which was at the top of its previously announced range, Argentaria's paper was heavily oversubscribed.

The offer price represented a *5.61 per cent discount* on Tuesday's closing price of Pta6,410 and demand among US and UK investors was between four and five times the available paper.

The strong bids for Argentaria shares mirrored the success of the earlier placement when the equity was offered at a price of Pta3,800 and was also strongly oversubscribed.

Investor interest has been fuelled by firm third-quarter results and by the potential for further growth on the back of cross-selling among the group's well-established niche units.

Argentaria controls a group of state-owned financial institutions which include the post *office savings bank as well as* units that are market leaders in the domestic mortgage sector and in lending to the local administration.

It is the fourth biggest group by market capitalisation on the Madrid stock market after Endesa, the electrical utility, Tele*fonica and the energy group* Repsol.

Argentaria is 23 per cent owned by foreign institutions, although no single shareholder owns more than 1 per cent.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6:55 pm on November 17

U.S. DOLLAR STRAIGHTS; OTHER STRAIGHTS; DEUTSCHE MARK STRAIGHTS; FLOATING RATE NOTES; SWISS FRANC STRAIGHTS: [illegible]

YEN STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
Belgium 5 99	75000	107½	107¾	+⅛	3.60
Denmark 7 95	40000	105⅜	105⅝		2.40
EIB 6⅝ 00	100000	116⅝	116⅞	+⅛	3.63
Elec de France 5⅝ 98	30000	107¾	108⅛		2.83
Finland 6⅜ 96	40000	108¼	109½	+⅛	2.64
Inter Amer Dev 7¼ 00	30000	120	120¼	+⅛	3.72
Japan Dev Bk 5 99	100000	108⅞	109¼	+⅛	3.38
Japan Dev Bk 6½ 01	120000	117⅜	117¾	+¼	3.85
Nippon Tel Tel 5⅞ 96	50000	108⅝	108⅞	+⅛	2.69
Norway 5⅛ 95	50000	103⅜	103⅝		2.41
SNCF 6¾ 00	30000	117½	117¾	+¼	3.59
Sweden 5⅝ 95	20000	105½	106		2.55
World Bank 6¾ 00	50000	117⅜	117⅝	+⅛	3.62

CONVERTIBLE BONDS	Issued	Conv. price	Bid	Offer	Prem.
Browning-Ferris 6¾ 05	400	52½	99	100	
Chubb Capital 6 98	250	66	107¼	108¼	+19.40
Eastman Kodak 6⅜ 01	300	59.67	122	123	-1.88
Gold Kalgoorlie 7½ 00	65	1.0554	108½	109⅝	+50.99
Hanson 9½ 06 £	500	2.5875	124⅝	125	+16.94
Hawley Pref 8 02	400	19.1	133½	134⅞	
Land Secs 6¾ 02 £	84	6.72	105¾	106⅞	-2.38
Lasmo 7¾ 05 £	90	5.64	92½	93½	
Mitsui Bank 2⅝ 03	200	2332.6	99⅛	100⅛	+14.56
Mount Isa Fin 6½ 97	100	2.283	101¼	102⅛	+63.78
Natl Power 6¼ 08 £	250	4.33	111½	112¼	+20.55
Ogden 6 02	85	39.077	96	96⅞	+59.63
Smith Nephew 4 02 £	90	1.775	132½	133½	+72.30
Sumitomo Bank 3⅛ 04	300	3606.9	93⅞	95⅛	+19.65
Sun Alliance 7¼ 08 £	155	3.9	113⅛	114	+19.24
Tesco Capital 9 05 £	200	2.51	118⅞	119¾	+59.56
Texas Instruments 2¾ 02	300	62⅞	100½	101½	+34.81

* No information available - previous day's price
‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (‡ three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	63	8	7
Other Fixed Interest	4	0	11
Commercial, Industrial	314	217	891
Financial & Property	243	87	498
Oil & Gas	24	17	38
Plantations	0	0	9
Mines	43	36	60
Others	68	22	52
Totals	759	387	1,566

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amt Paid up	Latest Renunc Date	1993 High	1993 Low	Stock	Closing Price	+or -	Net Div	Times Cov'd	Gross Yield	P/E Ratio
§140	F.P.	-	165	140	Abacus	162		NR3.5	2.0	2.7	22.0
-	F.P.	-	94	88	Abtrust Emrg Economics	90	-½	-	-	-	-
-	F.P.	-	52	46	Do Warrants	51	-1	-	-	-	-
170	F.P.	-	186	178	Allders	186	+2	WN6.1	2.2	4.1	13.9
170	F.P.	-	178	160	BSM	160		W5.78	0.7	4.5	40.9
100	50		62	50½	BZW Endowment Fund	51½	+½	-	-	-	-
§460	F.P.	-	475	433	Cantab Pharmaceuticals	440	+3	-	-	-	-
125	F.P.	-	168	135	CentreGold	147		LN2.0	2.7	1.7	26.0
110	F.P.	-	110	98	Charles Sidney	104	-3	LN3.5	2.2	4.2	13.2
100	F.P.	-	114	102	Cleveland Trust	109	-1		0.8	6.1	21.3

[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc Date	1993 High	1993 Low	Stock	Closing Price p	+ or -
380	Nil	9/12	46pm	30pm	Ashtead	30pm	-3
85	Nil	23/11	14pm	5pm	‡Cornad	7pm	
63	Nil	14/12	8pm	4pm	Elliott (B)	4pm	
35	Nil	13/12	1¾pm	¾pm	Eng & Overseas Props	1½pm	
¾	Nil	23/12	1¼pm	½pm	Femmnet	1¼pm	
11	Nil	23/12	1¾pm	1¼pm	Graystone	1½pm	+¼
3¼	Nil	23/12	½pm	½pm	IMC Inds.	½pm	
485	Nil	24/11	86pm	62pm	Siebe	65pm	-4
2½	Nil	10/12	¼pm	¼pm	Wentworth	¼pm	
15	Nil	27/11	3pm	3pm	Wescol	3pm	
375	Nil	25/11	47pm	38pm	Wilson Bowden	38pm	
152	Nil	14/1	23pm	13pm	Wyevale Garden Centres	13pm	

pm Price at a premium. For other notes please refer to the Guide to the London Share Service.

TRADITIONAL OPTIONS

- First Dealings Nov. 8
- Last Dealings Nov. 19
- Last Declarations Feb. 10
- For settlement Feb. 21

3-month call rate indications are shown in Saturday editions.

Calls: Aminex, Amstrad, Avesco, LIG, Medeva, Pan Andean, Renison Gold, Wilshaw. Puts: Babcock, Signet, Tex Hldgs., Tiphook. Puts & Calls: Betterware, Signet.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

[illegible]

FT-SE INDEX (*3120)

	2900	2950	3000	3050	3100	3150	3200	3250
CALLS								
Nov	220	170	120	72½	28	4½	½	½
Dec	238	194	151	112	77½	49½	29	16
Jan	256	212	173	136	104	75½	54	36½
Feb	272	230	191	155	124	95	73	52½
Jun †	300	-	226	-	165	-	116	-
PUTS								
Nov	½	½	1	2½	8	33½	82	132
Dec	12	17	23½	35	50	72½	103	143
Jan	23½	30	42	53	71	93½	123	156
Feb	33	40½	51½	64½	84	105	134	165
Jun †	53½	-	78	-	115	-	166	-

November 17 Total Contracts 38,096
Calls 21,350 Puts 16,746
FT-SE Index Calls 7,785 Puts 10,516
Euro FT-SE Calls 2,153 Puts 828
*Underlying security price. †Long dated expiry mnths. Equity premiums are based on closing offer prices. Index options are settlement prices.

FT-ACTUARIES FIXED INTEREST INDICES

	PRICE INDICES	Wed Nov 17	Day's change %	Tue Nov 16	Accrued interest	xd adj. 1993 to date
	British Government					
1	Up to 5 years (24)	129.24	+0.12	129.09	2.11	10.03
2	5-15 years (22)	157.95	+0.46	157.23	1.89	11.56
3	Over 15 years (9)	180.59	+0.66	179.41	2.87	10.04
4	Irredeemables (6)	210.25	+0.74	208.71	0.70	13.47
5	All stocks (61)	153.37	+0.40	152.76	2.18	10.93
	Index-Linked					
6	Up to 5 years (2)	191.10	+0.33	190.47	0.63	4.28
7	Over 5 years (11)	188.45	+0.49	187.54	1.04	4.29
8	All stocks (13)	187.81	+0.47	186.93	1.00	4.27
9	Debs & Loans (66)	144.86	+0.53	144.10	1.93	10.14

	AVERAGE GROSS REDEMPTION YIELDS		Wed Nov 17	Tue Nov 16	Year ago (approx.)
	British Government				
1	Low	5 years	6.01	6.08	7.07
2	Coupons	15 years	6.89	6.95	8.22
3	(0%-7¾%)	20 years	7.00	7.05	8.48
4	Medium	5 years	6.26	6.31	7.41
5	Coupons	15 years	7.01	7.08	8.67
6	(8%-10¾%)	20 years	7.08	7.13	8.87
7	High	5 years	6.39	6.45	7.65
8	Coupons	15 years	7.19	7.27	8.98
9	(11%-)	20 years	7.21	7.29	9.07
10	Irredeemables(Flat Yield)		7.12	7.18	8.86
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	2.04	2.30	2.42
12	Inflation rate 5%	Over 5 yrs.	3.06	3.13	3.78
13	Inflation rate 10%	Up to 5 yrs.	1.16	1.53	1.58
14	Inflation rate 10%	Over 5 yrs.	2.87	2.96	3.50
15	Debs &	5 years	7.58	7.68	8.84
16	Loans	15 years	8.00	8.06	9.95
17		25 years	8.16	8.21	10.13

Reduced underwriting loss lifts CU to £144m

By Richard Lapper

A REDUCTION in underwriting losses helped Commercial Union, the largest composite insurer, increase pre-tax profits to £144.2m for the first nine months of 1993, against £6.1m for the same period of last year.

The figures were roughly in line with expectations and the shares rose 10p to close at 606p.

"The substantial improvement in general insurance trading, especially in the UK, continued in the third quarter and life profits again made a significant contribution," said Mr Tony Brend, chief executive.

UK underwriting losses amounted to £59.8m (£128.6m), with London market losses of £70.9m (£65.8m) offsetting profits on other lines.

CU said that although market conditions were continuing to improve, there "are signs of increased competition for private motor business".

General insurance premiums rose by 26 per cent to £3.1bn (£2.46bn), and life premiums increased by 7 per cent to £1.39bn (£1.3bn). Investment income advanced to £263.4m (£212.4m) – after charging external loan interest of £21.4m (£35.1m) – reflecting the benefit from higher cash flow, the proceeds of capital issues and exchange rate movements.

Group underwriting losses fell to £215.3m (£302.3m). Associates contributions were £9.7m (£14m). Non-life profits amounted to £57.8m (£75.9m losses) and life profits were £86.4m (£82m). The figures include a loss of £3.7m, which relates to the termination of activities in Argentina.

Shareholders' funds at September 30 increased to £2.31bn (£1.5bn at end-1992), which included £428m from the rights issue and £81m from shares in lieu of dividends.

● COMMENT

Results this week from Royal, General Accident and Commercial Union leave no doubt about the recovery in the UK insurance market. The main question for investors is which of the five large composites to favour. On some grounds CU looks a shade expensive. The company should comfortably achieve full year profits of £180m. So at yesterday's closing price, CU is on a prospective multiple of about 21, one of the highest ratings in the sector. However, in other ways the company appears to be a safer bet than its rivals. A historic gross yield of 5.1 provides firm underpinning. Less volatile life business provides a much higher percentage of CU's earnings than at any of its four main composite rivals. At the nine months stage, life provided 30 per cent of income and nearly 60 per cent of operating profits.

Acquisitions behind 49% Volex surge

By Peter Pearse

VOLEX GROUP, the electrical interconnection products company, lifted pre-tax profits 49 per cent, from £3.21m to £4.8m, in the 26 weeks to September 30.

However, Mr Ken Hooper, finance director, said that the corresponding period did not include Mayor, the Singapore-based maker of data and power cord assemblies acquired in October 1992 for £6.5m, or CMS, the US moulded cable assemblies maker bought in January 1993 for £3.1m.

Group turnover grew 47 per cent to £72.5m (£49.4m) and operating profits advanced 61 per cent to £4.83m (£3.01m). Investment income rose to £445,000 (£222,000) though interest payable also rose to £478,000 (£18,000).

Mr Oliver Chapple, who became chief executive in October after Mr Howard Poulson had been head-hunted by Farnell Electronics in May, said that Volex now had three poles of operations – the Far East, Europe and the US. After the rapid expansion of the last two years – especially overseas; 60 per cent of sales are now outside the UK – Volex now had an international capability in marketing and supply.

Volex had to become "a unified force" within the global market, Mr Chapple said, with its sourcing rationalised and with co-ordinated marketing initiatives. Then organic growth would follow. Mr Bill Goodall, chairman, added that Volex would still be looking to make another important strategic move – along the lines of the Mayor acquisition.

In cable assemblies, Pencon continued to benefit from legislation over the pre-fitting of plugs to electrical appliances. In Europe sales grew to the personal computer industry but fell to the mainframe market. The US "stood still", said Mr Chapple, though the group was now also focusing on the medical sector which he expected would have a high growth rate.

Specialist cables and wiring harnesses performed less well though Volex Wiring Systems had now been restructured.

Earnings fell to 10.5p (11.2p). The interim dividend is unchanged at 6.5p.

Housing starts help Meyer to £19m

By Catherine Milton

MEYER INTERNATIONAL, the building products group, said yesterday that the fragile recovery in the UK housing market and thus the outlook for its own profits hinged on the Budget later this month.

"We would see a neutral budget as reasonably positive for our business," said Mr John Dobby, chief executive, as he reported a jump in interim pre-tax profits from £8.5m to £19m.

Meyer was helped by the full benefit of a lower cost base after three years of cost-cutting.

Sales in the six months to September 30 rose to £600.8m compared with £540.5m, stripping out a £17.7m contribution from Cadel, a plumbers' and heating merchants sold last year.

Meyer, which raised £70m in a rights issue in April, is holding its interim dividend at 4.2p, payable from earnings up at 11.3p (5.9p restated), and expressed cautious optimism about prospects: "We have seen a modest increase in demand in the first six months and we have seen that continue in October and November to date."

Mr Dobby said Meyer had been helped by housing starts climbing "steadily upwards" because of the "direct relationship" with its main product, timber.

He said prices had risen between 2.5 per cent and 3 per cent on an annualised basis after "many years" of falls, with the price of timber lifted a little more.

Operating profits rose to £24m (£17.9m). The 191-strong Jewson builders' merchants chain, which closed 11 branches last year, improved its contribution to £10.3m (£7.1m) on sales up at £215.1m (£209.4m).

Meyer may add branches and said bad debts in the division fell to 0.74 per cent (1.5 per cent) of sales.

Profits in the forest products division were £8.4m (£8.1m) on sales of £180.3m (£156.8m). In continental Europe profits were £6.5m (£5m) on sales ahead at £195.3m (£168.6m).

US laminates delivered profits of £200,000 against last year's neutral contribution on sales ahead at £10.1m (£6.7m).

Net interest payments fell to £5m (£6.8m) as the rights funds helped reduce net borrowings to £69.1m (£138.4m). Gearing was 20.6 per cent (53.9 per cent).

● COMMENT

Loyal shareholders deserve some recovery after last year's dividend cut and stumping up for the rights issue which critics pin to the £63.4m net cost so far of Meyer's unhappier diversifications. The company is not alone in such mistakes and has some successes, such as Pont Meyer in the Netherlands and the US laminates business, to its credit. Taking the positive with the negative, analysts have upgraded full-year pre-tax forecasts to between £39.5m and £41m giving a range of multiples between 17 and 20 – in line with the sector. Buyers expect earnings growth on margin recovery.

Hanson sale gets under way

By Roland Rudd

HANSON, the Anglo-US conglomerate, will today signal the start of the sale of many of its smaller businesses by announcing the disposal of Axelson oil and gas in North America.

Mr Derek Bonham, Hanson's chief executive recently given the additional title of deputy chairman, is understood to have given the go-ahead to raise more than £500m from the sale of non-core businesses on both sides of the Atlantic.

The group has decided to take advantage of the appetite for new issues in the US and UK markets by drawing up plans for a number of flotations, although it is still planning to dispose of many of its smaller companies through trade sales.

Both Mr Bonham and Mr David Clarke, chief executive of Hanson Industries, the group's US arm, have long been in favour of rationalising the group by concentrating its resources on big businesses such as coal, building materials, tobacco and chemicals.

The rise in the group's net debt to £3.5bn, however, has underlined the importance of bringing borrowings down through disposals.

Net debt rose significantly after last summer's acquisition of Quantum Chemical Company in the US, which had $2.5bn (£1.67bn) of borrowings.

The new management is understood to have received the unanimous backing of the board to proceed with the rationalisation programme.

Mr Bonham, according to one of the group's advisers, believes Hanson must now degear the balance sheet in order to position the group to take advantage of any potential acquisitions in the future.

Axelson is seen as a typical example of the kind of business Hanson has now lined up for sale.

Since the group has no plans to be a big force in oil and gas it did not believe it could justify management time spent on Axelson which has sales of $60m and an annual profit of $9m. It is being sold to a US company for about $80m.

Other US companies earmarked for disposal include housebuilding, consumer products and recreation and leisure companies.

In the UK Hanson is talking to Electra, the development capital group headed by Mr Michael Stoddart, which is backing a management buy-out team interested in buying a number of British businesses which could raise as much as £90m.

Water companies make progress

Two water companies controlled by Lyonnaise des Dumez returned higher profits for the half year ended September 30.

Suffolk Water's rose from £2.4m to £2.9m pre-tax on turnover of £9.9m (£8.2m). Earnings per share emerged at 56p (43p) but the interim dividend is 23.3p (23.7p).

Essex Water returned pre-tax profits of £9.9m against £9.4m on turnover of £35.4m (£33m).

Earnings per share were 90p (113p). The interim dividend on the voting A shares and non-voting B shares is 39.1p (36.8p).

Cost cutting and rising output behind earnings surge at Lonrho SA

By Kenneth Gooding, Mining Correspondent

COST CUTTING and increased output helped boost income after tax at Lonrho South Africa's platinum interests by more than 100 per cent in the year to end-September, from R27.8m to R56m (£8.75m).

However, the fall in the price of rhodium, by 44 per cent from the 1992 average, hit cash flow so borrowings increased by R80.4m to R807.9m.

Lonrho SA said that production of refined platinum group metals rose by 27.8 per cent to more than 938,000 troy ounces. Unit costs, from mining through to production of metals in matte, fell by 8.2 per cent to R19,807 a kilo, excluding a one-off cost of redundancies, and by 7.3 per cent to R19,990 including this cost.

Turnover at the division, which takes in Eastern Platinum in Bophuthatswana and Western Platinum in the Transvaal plus Western's refinery near Johannesburg, rose by 10 per cent from R830.2m to R913.7m.

Net income, after an extraordinary item of R91.66m (R11m) associated with a reduction in deferred tax liability following a lowering of the tax rate, was R147.7m (R38.9m).

Lonrho said capital expenditure, excluding interest capitalised, was R100m and would be about the same this year.

Unilever puts a smile on Chinese faces with toothpaste venture

By Gary Evans

UNILEVER IS to set up a joint venture with Shanghai Toothpaste Factory in China for the production and marketing of oral care products.

Unilever will have a 60 per cent share in the venture – its sixth in China – which will employ 1,350 people.

Shanghai Toothpaste claims to be China's largest toothpaste manufacturer – producing more than 550m tubes a year – and with about 5 per cent of world production, is also the largest manufacturer in Asia.

Its brands Zhonghua (China) and Maxam are well known in China, while Maxam is also exported to several Asian and African countries.

With a population of over 1.2bn, the Chinese oral care market has substantial growth potential. Toothpaste is already widely used and there are significant opportunities as oral hygiene consciousness increases, prompted by educational programmes aimed at the predominantly young population.

Shanghai Toothpaste and Unilever will team up to utilise technological and marketing expertise to further develop the Chinese brands, together with Unilever's existing international brands which will be introduced in China. Unilever's brands include Signal, Mentadent, Pepsodent and Close-Up.

The transaction will be subject to the approval of the Shanghai authorities.

P&S News up 10% to £3.8m

Portsmouth & Sunderland Newspapers, the publishing, printing and retailing group, increased pre-tax profits by 10 per cent from £3.39m to £3.75m in the half year to September 25, on turnover 5 per cent higher at £54.9m, against £52.3m.

All group companies improved profits, apart from Portsmouth Publishing & Printing which suffered a further decline in its market place. In response to these poor conditions, PP&P closed a free newspaper, Streetlife, and also continued to reduce manpower elsewhere.

These actions resulted in rationalisation costs of £639,000 (£290,000). Excluding these costs, underlying profits before tax increased by 19 per cent.

Earnings per share slipped to 20.2p (20.6p). In line with the board's intention of paying an interim of about one third of the previous year's total, the interim is 3.12p (2.84p).

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Atreus	int	0.264	Dec 31	-	-	-
Courtaulds	int	4	Jan 24	3.8	-	14
Essex Water	int	39.1	Dec 16	36.8	-	75.4
Jarvis Porter	int	1.65	Jan 14	1.5	-	4.7
Land Securities	int	6.6	Dec 17	6.3	-	22.85
M&G Recovery	int	0.85§	Dec 10	0.85	-	3.82
Meyer Intl	int	4.2	Feb 4	4.2	-	10
P&S Newspapers	int	3.12	Dec 31	2.84	-	9.46
Prop Partnerships	int	2.6	Jan 12	2.55	-	7.25
Suffolk Water	int	23.3	Dec 16	23.7	-	47.5
Volex	int	6.5	Feb 7	6.5	-	17.85
Vosper	int	5.3	Jan 8	4.7	-	15.8
Young & Co's	int	7.25	Dec 17	7	-	14.5

Dividends shown pence per share net except where otherwise stated. §Second interim; makes 1.7p to date.

which involve the construction of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is to proceed.
In the Ukraine, unable and ... and western nuclear scientists. Mr Rémy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the ... economy, supplies of other fuels and other factors over which the nuclear industry has little control.

£2.9m boost from sale of investment properties

Land Securities edges ahead to £118.9m

By David Blackwell

Lydia van der Meer

Peter Hunt: described recovery as slow and fragile

LAND SECURITIES, the UK's biggest property company, yesterday lifted its interim dividend as pre-tax profits edged ahead to £118.9m for the six *months to the* end of September.

The outcome compared with a previous £116.5m. *Earnings* per share were ahead from 16.58p to 17.22p; the dividend is lifted by 4.8 per cent from 6.3p to 6.6p.

Excluding the £2.9m proceeds on the sale of investment properties, *pre-tax profit* was almost unchanged at £116m (£116.2m). Net rental income improved from £187.6m to £192m.

Mr Peter Hunt, chairman and managing director, said the results *confirmed his view* that, until rental growth fed through into higher rents, net revenue from the group's existing portfolio was likely to remain flat.

He described the recovery as *slow and fragile. Rents* were continuing to fall in central London, but increased enquiries and a falling level of high quality space suggested that "rental levels for the best property may be close to reaching a floor."

The group, which in May raised £140m for new property investment through a convertible bond issue, spent or committed £70m on purchases during the six months. The biggest purchase was the Bridges Shopping Centre in Sunderland. At the end of September it had just over £295m of funds available for future acquisitions, developments and refurbishments.

Net interest payable rose from £59m to £65.1m.

Mr Hunt said the group had made considerable progress in reducing voids from about 4 per cent of the rent roll to 3 per cent, excluding vacant buildings held for future development.

The group would continue its policy of cutting the level of voids and overheads, rebalancing its portfolio with retail and industrial/warehouse acquisitions, and keeping its property in the best possible condition.

Bowthorpe's $21m expansion

By Paul Taylor

BOWTHORPE, the international electronic and electrical components group, has strengthened its environmental monitoring instrument operations with the acquisition of Colorado-based Lear Siegler *Measurement Controls* for $21m (£14m) cash.

The instruments manufactured by the company are mainly used to measure dispersed gaseous pollutants outdoors and the opacity of emissions from industrial chimneys.

Commenting on the acquisition, Mr John Westhead, Bowthorpe's chief executive, said: "*This business will fit* extremely well into Bowthorpe's data acquisition and environmental sector."

Bowthorpe's data acquisition and environmental operations already comprises six companies which bring together US and UK-based expertise in electronic data gathering and monitoring for environmental, advanced research and aerospace applications.

Lear Siegler Measurement Controls, which is based in Englewood, Colorado, is a wholly owned subsidiary of Lear Siegler and is a leading designer and manufacturer of *gaseous pollutant monitoring* instruments and integrated systems.

The net assets being acquired by Bowthorpe were valued at $4.5m at the end of June. For the year to June 30, *Lear Siegler reported a loss* of $300,000 on turnover of about $30m.

The business is now trading profitably.

Under Bowthorpe the business will operate as Monitor Labs, but will continue to be run by its current management.

Banner seeks £3m and full listing

By John Murrell

BANNER HOMES, the Buckinghamshire-based housebuilder, yesterday called for £2.9m via a *rights* issue and also announced plans to move from the USM to the main market.

The cash call is of 3.61m new shares at 89p, fully underwritten by Charterhouse Bank, on a 2-for-7 basis. Brokers to the issue are Charterhouse Tilney Securities.

The money raised will enable Banner to "finance its plans *based on its strong* land position." It will also help to reduce debt.

Mr Stuart Crossley, chairman and chief executive, together with connected interests, currently own 10.1m shares – or 79.8 per cent of the equity. In addition to the money raised, they are to place their rights entitlement, amounting *to* 2.88m shares, with institutions, leaving their interest in the company at 62.1 per cent.

The move to a full listing is expected to take effect from December 13.

Banner now owns or controls 38 sites with potential for building 800 units. Its target is to complete some 70 units in the year ending March 31 1994 and to increase this to about 150 units by end-March 1995.

*The group currently manages two BES house*building companies and holds a 10.7 per cent interest in each.

It has entered into a put and call option to acquire all of the assets and liabilities of the two companies in April 1995.

Dalgety in talks to buy BP petcare business

By Deborah Hargreaves

DALGETY, the food and agriculture group, is in talks *with British Petroleum* over the purchase of its Paragon Petcare business for between £40m and £50m. The company hopes to complete the purchase within the next five weeks.

Paragon is one of the few remaining businesses in the BP Nutrition division, which *the company put up for sale* a year ago. Paragon has sales of £103m *spread* across Europe and makes a profit, although neither company would reveal how much.

Dalgety holds a 25 per cent *share of the UK market with* its Spillers Petfoods group and its main Winalot brand, with roughly 8 per cent of the European market. "There are several elements we find attractive . . . it will give us a *much wider geographical* spread throughout Europe and a management presence in Europe," said Mr John Martin, Dalgety's finance director.

Paragon has its headquarters in Bunnick, the Netherlands, with plants in the UK, Germany and France. It will also add to Dalgety's presence in branded dry petfoods with its Beta product in the UK market where the agriculture company has not such a strong presence.

BP has sold its main nutrition businesses leaving a few peripheral companies active in fish farming and chicken breeding still to sell. Earlier this year, it sold Purina Mills, *the largest supplier of animal* feeds in the US, to the Sterling group, a venture capital organisation.

Exit from fashion business will cost £6.5m and lose 300 jobs

Pittards to close clothing division

By Peggy Hollinger

PITTARDS, the leather company, yesterday accepted defeat in its four-year battle to stay in the fashion business with the announcement that it had decided to close its clothing division at a cost of £6.5m *and 300 jobs.*

The decision will leave Pittards with losses estimated at about *£7m* for the 1993 year and has cast doubt on the dividend payment. Pittards said it was unlikely to return to "a normal level of distribution" in light of the announcement.

Pittards, along with its main rival Strong & Fisher, has been struggling to recover from the effects of extremely volatile sheepskin prices in the late 1980s. Strong & Fisher survived only after a rescue cash injection from Hillsdown Holdings, *thefood group.*

Mr John Buckley, finance director, said the costs of closing the Abingdon factory, together with property writedowns and advance corporation tax write-offs, would result in an £8.5m reduction in the group's net assets to £22.1m. This would have forced Pittards to breach several of its banking covenants. However, these had been waived after negotiations with the group's bankers.

Pittards has debt of £17.4m, leaving gearing at about 80 per *cent. The redundancy pro*gramme would push gearing up to 90 per cent by the end of the year. Its banking facilities are up for renegotiation in March.

Pittards first entered the fashion business in 1986 with the acquisition of Garner Booth. The closure leaves Pittards with its original businesses of chamois leather, gloving leather and shoe and other leathergoods.

Mr Buckley said he was optimistic that Pittards would return a profit next year. The *clothing division, which has* returned losses for each of the last four years, is estimated to have incurred a deficit of about £1.5m for the 10 months of this year. Analysts are forecasting a return to profits of about £2m in 1994.

Aer Lingus workforce poised to take 5% equity stake

By Tim Coone in Dublin

THE I£50m (£47.2m) cost-cutting rescue plan for Aer Lingus, Ireland's state airline, appeared to have passed one of its final hurdles last night, *after the Irish government* agreed terms with unions for the workforce to take a 5 per cent equity stake in the company in return for a two-year pay freeze.

The equivalent of a further 5 per cent stake will be paid in cash if the airline returns to profitability.

Mr Paul O'Sullivan, the principal union negotiator, said: "Workers have achieved a major breakthrough . . . and secured a *strategic* stake in Aer Lingus. This is also a first in European national airlines. Aer Lingus workers will immediately become real shareholders in the company and be able to influence its strategic direction".

Earlier this month, SIPTU, the trade union representing the majority of the airline's 5,500 *workforce,* accepted payroll cuts amounting to I£21m and "radical" changes in work practices, involving 800 voluntary redundancies.

Agreement had not been reached, however, on pay *awards for the coming two* years, and it was decided to refer this matter to arbitration.

A tribunal ruled last week that there should be a pay freeze for two years, but which would be softened by an I£2m fund to be distributed to the workforce in 1995 on condition that payroll cost-cutting targets are met.

SIPTU was unhappy with the ruling and decided to suspend a ballot of its members on acceptance of the overall rescue package until the government improved an offer to give a 5 per cent equity stake in the airline to the workforce.

SIPTU had earlier demanded 15 per cent; one of its officials pointed out: "This is far less than the 45 per cent stake that has been given to the workforce in some US airlines".

The negotiations with the government were handled by the Irish Congress of Trade Unions, which views the outcome of the negotiations as creating a yardstick for rationalisations and pay awards in *other state enterprises,* such as Telecom Eireann, which are being groomed for eventual privatisation.

The first I£75m tranche of a I£175m equity injection by the government is due to be made in December, but is conditional both on acceptance of the rescue package by the workforce, and approval by the European Commission. The injection is required to fund restructuring of the airline and the voluntary redundancies, some of which are already taking place.

The airline's rivals on the intensely competitive Dublin-London route are opposed to any of the equity injection being used to set up a new low-cost, no-frills service on the route, and are lobbying intensely in Brussels to block the plan.

Nationwide buys £24m mortgages

By Alison Smith

Nationwide, the UK's second largest building society, said yesterday that it had bought the National Bank of Canada's mortgage book.

Purchase of the mortgage portfolio, worth £24.1m, marks the bank's departure from the UK mortgage business, which it entered in 1988. Neither the bank nor the Nationwide would reveal the price that had been paid.

The portfolio will be managed by Nationwide Home Loans, a wholly owned subsidiary of the building society, bringing its assets to £147m. The society itself has assets of over £34bn.

National Bank of Canada said that it had sold the mortgage book because its core business was in treasury and corporate matters rather than on the retail side.

In August, the bank reported a strong recovery for the third quarter and nine months.

Courtaulds defends core activities' performance

By Paul Abrahams

MR SIPKO Huismans, Courtaulds' ebullient chief executive, yesterday strongly defended the performance of his main divisions.

"I'm in very good heart about our core businesses which are in fine fettle. But we are a chemical company and it's tough out there. We defied the recession for a couple of years, but if we could walk on water we'd be called something different," he said.

The coatings division reported operating profits down from £28m to £27m on sales of £290m (£354m). The fall in profits included a £7m charge for restructuring. Mr Huismans said the division had 18 manufacturing plants in North America and Europe, and he expected those to be reduced by a third.

He stressed the UK remained the group's favourite location for manufacturing in Europe. "Germany provides an outmoded socialist environment. That country has a long way to go to reach the efficiency levels of the UK," he said.

Performance materials registered trading profits up from £7m to £13m on sales of £120m (£94m). Sales and profits benefited strongly from the light armoured vehicle contract which is now being completed. The difficulties in the civil aviation and defence industries held back demand for aerospace sealants and coatings.

Packaging operations generated operating profits up from £7m to £9m on turnover of £80m (£67m). Sales of tubes grew at 20 per cent, while profits from rigid packaging improved on unchanged turnover. The chemicals division reported trading profits down from £19m to £14m on lower sales of £108m (£99m). Profits in acetate filter fell from midsummer as a buying freeze in China upset the international balance of supply and demand.

The fibres and films businesses generated trading profits down from £31m to £28m, on turnover up from £308m to £321m.

The credit squeeze in China also hit the European acrylic fibre market and in the US, the viscose market was affected by Far East imports.

The company announced a reorganisation of its business areas from five divisions to three. The new divisions are coatings and sealants, fibres and chemicals, and polymer products.

Under the new organisation, coatings and sealants reported operating profits of £32m (£33m) on turnover of £443m (£401m); polymer products posted trading profits of £18m (£10m) on sales of £184m (£147m); and fibres and chemicals registered operating profits of £41m (£49m) on turnover of £367m (£365m).

Trevor Humphries

Sipko Huismans (left) with finance director Michael Pragnell: in good heart about the core businesses which are in fine fettle

Youngs bolstered by interest rate cuts

By Graham Deller

LOWER INTEREST rates helped Young & Co's Brewery, the south London-based real ale brewer, report a 5 per cent increase in interim profits.

Despite reduced turnover of £36.1m (£37.4m), reflecting difficult trading conditions - there were no signs of recovery, the company said - the pre-tax line for the six months to September 25 edged ahead to £2.58m, against £2.45m, struck after gains of £23,712 on asset sales.

Interest payable dropped to £1.35m (£1.7m).

Heavy interest charges have held back the group's growth in the 1990s as it funded the purchase of new pubs and expanded into hotels.

Export markets showed signs of improvement. The US side was doing "very well", the company said. A substantial drive into Hong Kong and China would begin soon, initially with the group's lager brands.

The UK, in contrast, continued to suffer from recession.

The introduction of Oatmeal Stout into some 60 outlets, however, had performed "beyond expectations".

The product developed an "enormous following" in the US following its introduction there in 1989 and a more general release into the group's UK estate was anticipated.

After tax of £901,464 (£808,826) earnings per 50p share emerged at 12.52p, up from 12.27p last time.

The interim dividend goes up 0.25p to 7.25p.

Vosper to boost acquisition level

By Andrew Bolger

VOSPER Thornycroft Holdings, the shipbuilding and engineering group, intends to increase the size and frequency of acquisitions, with a view to lessening its dependency on warship orders.

The Southampton-based company reported a 10 per cent increase in pre-tax profits to £9.08m in the six months to October 3.

Sales rose by 27 per cent to £114.6m, of which 84 per cent is for export.

Mr Peter Usher, chairman, said the group had so far been justifiably cautious on making acquisitions, having purchased businesses for about £1m each. However, he was now prepared to buy one or more businesses at about the £20m level, if and when suitable candidates were identified.

Mr Martin Jay, managing director, said about 15 per cent of sales were already not connected to warship orders, which could be erratically phased, although some of this work was still defence related.

The group had cash balances of £137m at the half-year, although the total was inflated by the receipt of a large stage payment for work in hand. The underlying cash position is about £60m.

The order book of work yet to be performed is worth more than £800m, with over 95 per cent for export.

Mr Usher said he looked forward to tendering for the next batch of Royal Navy minehunters.

"Despite uncertainties over the level of UK defence expenditure, we are encouraged that the minister for defence procurement stated last month that the Royal Navy needs more single role minehunters."

The group has completed an £8m investment programme in shipbuilding facilities.

In preparation for the Common New Frigate which is foreseen for the Royal and European navies, the company has also become partners in a bidding team for the project with GEC and British Aerospace.

Earnings per share increased by 10 per cent to 19.6p (17.8p), while the interim dividend is lifted by 13 per cent to 5.3p (4.7p).

Jarvis Porter helped by purchases

By Paul Taylor

ACQUISITIONS HELPED Jarvis Porter, the specialist label printer for the spirits, toiletries and pharmaceutical industries, report an 84 per cent increase in interim pre-tax profits.

Pre-tax profits grew to £3.42m (£1.85m) in the six months to August 31. Earnings per share increased to 7.2p (5.1p); the interim dividend goes up to 1.65p (1.5p).

The shares, which have risen steadily in the past year, yesterday gained a further 7p to close at a new high of 277p.

The growth in profits was fuelled by higher turnover and a small increase in margins. Turnover increased by 71 per cent to £28m (£16.4m), including £3.67m from the acquisition of two self-adhesive label producers, Dolphin in Lewis and Irwin Packaging in Cardiff, in March.

Overall, Mr Richard Brewster, chief executive, said recent acquisitions, including those made last year, accounted for about £10m of first-half turnover.

Operating profit increased by 92 per cent to £3.54m (£1.84m), including £373,000 attributable to Dolphin and Irwin. Excluding acquisitions profits increased by about 10 per cent.

While the core label production business achieved "creditable results through additional business and improved efficiencies," the group's promotional print businesses, John Quarmby in the UK and Waterlomat in Brussels, which both produce beer mats, also performed well.

Despite paying £4.6m in cash for Dolphin and Irwin and assuming £1.5m in debt, the group ended the period with net debt of just £900,000, equivalent to gearing of 5 per cent, compared to net cash of £3.2m at the end of February.

Mr Brewster said the group is considering further acquisitions, particularly in continental Europe.

Creditors approve scheme of arrangement for Kwelm

By Andrew Jack

CREDITORS yesterday approved proposals for a scheme of arrangement under English insolvency law for the Kwelm insurance companies by a significant margin, paving the way for an exit from provisional liquidation at the end of the year.

Mr Chris Hughes, head of insolvency at Coopers & Lybrand and one of the provisional liquidators, said creditors had voted "overwhelmingly in favour" by both number and value of claims at a meeting in Alexandra Palace in London.

An estimated 200 creditors turned up to vote, and by Monday evening this week Mr Hughes had already collected proxies in favour from creditors owed $3.1bn (£2.08bn). Those against were valued at $25m.

Total creditors' claims are estimated at above $6bn, and the schemes must be approved by three quarters of creditors by value.

The approval for an exit into a scheme of arrangement will require ratification by the High Court in London on December 8, followed by similar approvals in Bermuda and then in the New York courts on December 14.

Mr Hughes said he hoped to be able to offer a first dividend to creditors by the end of June next year, estimated at between 3 per cent and 12 per cent for the different companies.

All the Kwelm companies are subsidiaries of London United Investments, the insurer now in administration. They are Kingscroft, Walbrook, Lime Street and Mutual Re.

Andrew Weir creditors to get payment

By Andrew Jack

Creditors to Andrew Weir Insurance, which is in provisional liquidation, can ultimately expect to receive 50p to 60p in the pound, according to details of a proposed scheme of arrangement under English insolvency law circulated this week.

A summarised balance sheet for the year to December 31 1992 showed estimated assets of £111.1m, against liabilities of £142m.

The document said that Weir had gross reserves of £121.6m and estimated that additional gross reserves for environmental pollution might be £62m (£41.6m).

An initial pay-out to creditors is likely to be about 15 per cent.

The scheme of arrangement has been proposed by Mr Richard Boys-Stone and Mr Colin Bird, partners with Price Waterhouse and the provisional liquidators to the company.

Instinet purchase

Instinet Corporation, the electronic brokerage subsidiary of Reuters Holdings and Barclays De Zoete Wedd, the investment banking division of Barclays, has acquired BZW's Thameswey Investment Services.

Flotation puts £63m tag on Fenchurch

By Richard Lapper

FENCHURCH, the insurance broker, yesterday finalised its flotation, pricing the shares at 180p, which will capitalise the company at £63m.

A placing and offer for intermediaries by James Capel, the securities house, will raise some £20.4m net.

A total of 9.38m shares have been placed firm with institutions and a similar number have been placed subject to recall to satisfy valid applications under the intermediaries offer.

On the basis of earnings per share for the 12 months to September 30 1993 of 11.2p (or 10.7p on a fully diluted basis), the price puts Fenchurch on a multiple of 16.1, or 16.8 on a fully diluted basis.

After adjusting for the demerger of Fenchurch Underwriting Agency, effective from November 16, the multiple falls to 14.1, or 14.7 fully diluted.

Of the money raised, £15.3m will be used to repay bank and other debt assumed at the time of the management buy-out in 1989; £4.1m will be used to redeem preference shares, while the balance will provide additional working capital.

The directors believe the listing will enhance the profile "with clients and in insurance markets".

NEWS DIGEST

Moran cuts losses to £274,000

MORAN Holdings, the USM-traded tea producer, freight forwarder and property developer which came out of administration in July, cut its annual losses from £2.1m to £274,000 pre-tax.

The improvement reflected record profits from the freight forwarding division and "substantially" better results from the Indian tea company.

Group turnover for the 12 months to June 30 advanced from £36.7m to £45.8m. Interest charges were cut to £410,000 (£563,000) and losses per share emerged at 16.64p (46.32p).

In the High Court in July the administration order was discharged following a rescue package being approved by shareholders.

BTR to auction £48m of shares

BZW Securities is inviting bids for the shares it has agreed to acquire under its cash offer in respect of the enhanced scrip dividend alternative of BTR, the industrial holding company.

It is intended to sell the shares - which will have a value of about £48m - through a strike price auction.

Huntleigh purchase and £9m placing

Huntleigh Technology is paying £11.5m to acquire Nesbit Evans, a maker of medical equipment.

The purchase will be partly funded by the raising of £9m via a placing.

The placing will be of 2.14m new shares at 420p each, with the balance being financed by £1.5m cash and the issue of 871,000 of 4 per cent (gross) guaranteed unsecured loan notes 1994-99.

Huntleigh said the acquisition of Nesbit will broaden its product range and market penetration, as well as providing new opportunities in overseas markets.

Nesbit made pre-tax profits of £1.31m on turnover of £23.63m in the year to June 27.

Atreus 21% ahead at £551,000

Atreus, a shower screen and mirror supplier, achieved a 21 per cent increase in pre-tax profits from £456,000 to £551,000 for the half year ended September 30. Turnover improved by 17 per cent to £3.78m.

The company came to market in March following a reverse takeover of URS International. It is paying a maiden interim dividend of 0.264p from earnings of 1.02p (0.85p) per share.

Property Partnerships lower

For the half year ended September 30, Property Partnerships, the commercial property owner and developer, turned in lower pre-tax profits of £994,000, compared with £1.01m.

After tax of £293,000 against £335,000, earnings per share were 6.5p (6.21p). The interim dividend is increased from 2.55p to 2.6p.

Gross rental income and sales fell slightly to £3.19m (£3.36m) and operating profits were behind at £1.08m (£1.11m).

F&C German net asset value at 137p

Foreign & Colonial German Investment Trust had a net asset value of 137.2p per share at September 30, up from 121.5p at the March year-end and 105.2p at end-September 1992.

Attributable revenue for the trust's first-half dipped to £277,000 (£320,000) for earnings of 0.71p (0.91p) per share.

Allied London property buy

Allied London Properties has acquired for £34.4m a portfolio of six investment properties from Provident Mutual in exchange for properties valued at £21.6m, plus £12.8m cash.

Rental income from the properties, which comprise a mixture of office, industrial and retail, is £2.8m a year. Annual rental income from properties given in exchange is £2m, so rental income, directors pointed out, will increase by £1.8m a year.

which involve the construction of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is to proceed. In the Ukraine, unable and

and western nuclear scientists. Mr Rémy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

economy, supplies of other fuels and other factors over which the nuclear industry has little control.

Over the last 5 years we've helped millions to emigrate to Europe.

As European issuers look for increasingly efficient and cost effective ways to raise capital, more and more are discovering the difference that Merrill Lynch can make.

Our philosophy is simple: to link market to market, capital to companies and people to opportunities. To provide better local solutions by being globally more proficient.

The increasing flow of investment capital from the U.S. to Europe means that issuers can benefit in a way not previously imagined.

No-one is in a better position to access this flow than Merrill Lynch.

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These are just four clients who have discovered the difference that Merrill Lynch can make. A difference we'd be pleased to demonstrate wherever in Europe we can be of service.

The difference is Merrill Lynch.

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Inco sees nickel market heading for deficit

By Kenneth Gooding, Mining Correspondent

EVIDENCE IS building that points to a big cut in Russian nickel production and exports. This has lead Inco of Canada, the largest western producer, to claim that nickel supply and demand are virtually in balance this year and the market is heading for a deficit in 1994.

Sumitomo Metal, Japan's leading nickel producer, has publicly predicted that Russian nickel exports to the west will plunge by 35 per cent to 85,000 tonnes this year from an estimated 130,000 tonnes in 1992.

Mr Mars Altibaev, logistics manager for Norilsk of Russia, the world's biggest producer, joined the debate yesterday when he told a Metal Bulletin conference in Florida that his country's nickel exports in 1993 and 1994 would be no more than 90,000 tonnes each year. He suggested that Norilsk's output this year would be at least 20,000 tonnes below recent western estimates of 230,000 tonnes.

The International Nickel Study Group estimates that world nickel production fell by 70,900 tonnes or 11 per cent in the first nine months of 1993, to 581,300 tonnes, and that most of the drop occurred in the Confederation of Independent States. The INSG calculated production in the CIS plunged by more than 30 per cent, by 57,000 to 126,000 tonnes, in the nine months.

Inco "guestimates" that Russian production will be flat at about 180,000 tonnes in 1994 and that in the first quarter of next year world demand will exceed supply by 50m lb (22,686 tonnes).

"I believe the stories we hear from all quarters, including Norilsk, of reduced Russian production are correct," says Mr Peter Salathiel, Inco's executive vice president of marketing.

"Mining problems abound, essential equipment and supplies seem to be lacking. The result is an involuntary production cut of truly staggering proportions - some 120,000 tonnes or 265m lb in two years.

As for Russian exports, Mr Salathiel suggests that supply to the west of "backdoor" - or illegally exported - nickel has dropped sharply this year since Norilsk took over from the state the allocation system for Russian consumers. Previously some customers were exporting nickel illegally in order to survive a big fall in domestic consumption. "Knowing its customers, Norilsk has been better able to match deliveries with customer requirements and hence the supply of backdoor nickel has been sharply reduced," says Mr Salathiel.

He suggests that total imports of Russian nickel to the west will fall by 40,000 tonnes to a "miserly" 80,000 tonnes next year.

Norske Shell says leaking tank shut down platform

By Karen Fossli in Oslo

NORSKE SHELL, the Norwegian subsidiary of the Royal/Dutch Shell group, disclosed yesterday that two small holes in one of seven storage tanks of the NKr2bn (£180m) Draugen concrete oil platform had caused an estimated 1m tonnes of crude oil to leak into the Norwegian Sea.

The leak was discovered late on Sunday and production of 20,000 barrels a day was shut down for a period of 36-hours. Shell said that it had deployed the *Seaway Condor* diving vessel, which is equipped with a remotely-operated underwater robotic vehicle, to make video recordings of the leaking areas of the storage tank.

The holes in the tank had not affected the structural integrity of the oil platform, Shell said, adding that safety of the platform was not endangered.

The company said that there had still been a small stream of crude oil leaking from the tank yesterday.

The concrete, single tower platform was constructed by Norwegian Contractors - a subsidiary of Norway's Aker group - which has contributed to the membership of a four-man team established by the two companies to determine a course of action to repair the tank.

NC has built 15 concrete platforms over the past 20 years - including the Sleipner A platform, which sank in the west Norwegian Gands fjord in August 1991.

Aker's shares were little affected yesterday on the Oslo bourse by the disclosure. A-shares closed down NKr0.50 to NKr85 and B-shares lost NKr1.50 to NKr92.

The Norwegian Petroleum Directorate, the country's oil industry watchdog, yesterday received a preliminary report on the incident from Shell, but a final report will not be available until the underwater vehicle's inspections are completed.

Bad weather and water depth of 280m had made the inspections of the storage tank difficult, but not impossible, Shell said.

The leaking tank has been drained of oil and re-filled with water.

Draugen's seven seabed tanks have capacity to store 1.4m barrels of oil, or about 11 days' production.

The platform came on stream on October 19 and is expected to achieve a plateau production rate of 90,000-95,000 barrels a day in the middle of next year.

Turkmenistan, the gas-rich Central Asian republic, has awarded two tenders to western companies to explore and develop some of its oil-fields, one to Occidental Petroleum of the US and another to a US-Turkish consortium. Interfax news agency reported yesterday, writes Leyla Boulton in Moscow.

Occidental was reported to have paid a bonus of more than $20m to develop the Burun oil field, in western Turkmenistan, with known reserves of 35m tonnes.

A consortium called Oil Capital-Lapis Holding won the right, paying a bonus of $30m, to develop offshore reserves in the Caspian Sea. A tender for another oil-field, Barsa-Gelmez with reserves of 31m tonnes, was not awarded because interested companies needed more time to prepare their bids.

Ministers in agreement on EC fraud curbs

EUROPEAN COMMUNITY farm ministers yesterday broadly agreed measures to reinforce controls on subsidised exports to prevent fraud, Belgian farm minister Andre Bourgeois said, reports Reuter from Brussels.

"Ministers achieved virtual unanimity. . . they just need to finalise the text," added Mr Bourgeois, whose country is the current holder the EC presidency, after a meeting of the community's agriculture council.

Under the plan officials would be given flexibility to concentrate inspections where the risk of fraud was greatest. They would be required to inspect 5 per cent of all subsidised exports, instead of 5 per cent in each product sector as at present.

Customs officials at EC frontiers would also check a certain volume of exports cleared in the interior to safeguard against substitution of goods.

"It's a confidence building measure for member states and for the public," the Belgian minister said.

The ministers will discuss the issue again at the next agriculture council, which is scheduled to start on December 13.

RTZ to spend $500m at Utah copper complex

By Kenneth Gooding

RTZ CORPORATION, the world's biggest mining company, is to spend US$500m over five years to expand and upgrade tailings (waste) facilities at its Bingham Canyon copper complex in Utah.

This takes RTZ's financial commitment at Bingham to $1.4bn as it has already started a $880m project to build a new smelter that will take annual copper output from 155,000 to 272,000 tonnes and use up all production of concentrate (an intermediate material). At present Bingham sells 50 to 60 per cent of its concentrate.

Also, Kennecott, the RTZ subsidiary that operates Bingham, recently finished an expansion of the concentrator costing $219m. Kennecott is the third-largest copper producer in the US, with about 15 per cent of the nation's supply.

The tailings expansion will eventually cover 4,100 acres and is designed to provide waste storage for Bingham for the next 25 to 30 years. Kennecott hopes permits will be awarded in time for construction to start early next year, which will enable the project to be completed in 1998.

● Newmont Mining, North America's biggest gold producer, has reached agreement for a group of international banks to provide US$105m for its heap leach joint venture near the Muruntau mine in Uzbekistan, the biggest open pit gold mine in the world.

The European Bank for Reconstruction and Development will provide half the money and a group of 13 commercial banks are putting up the rest. EBRD said this was the first mining project finance it had provided, it was the first syndicated financing for the former Soviet Union and the first limited recourse private sector loan for Uzbekistan in any of the capital markets.

Newmont estimates the cost of the project, where its heap-leach technology will be used to extract at least 5m troy ounces of gold from old waste dumps at Muruntau over 16 years, will be $150m. Production at the so-called Zarafshan-Newmont joint venture is scheduled to start in early 1995 at the rate of 450,000 ounces a year. Annual output over the life of the project is forecast to average 310,000 ounces.

Newmont's joint venture partners are Uzbekistan's state committee of geology and mineral resources and the Navoi Mining and Metallurgical Combinat, each with 25 per cent.

India expects cotton crop close to last year's record

By Kunal Bose in Calcutta

INDIA EXPECTS to harvest another bumper cotton crop of 13.5m bales (170kg each) during the season that began in September, only marginally down from last season's record.

"A 13.5m bale crop is only the beginning of the season forecast," said an official of the Eastern India Textile Mills Association. "As has always been the case in the past the crop estimate will keep changing as the season progresses. Last year, the initial crop estimate was only 12m bales. But we finally ended up with a record production of 13.6m bales. All this happens because the country so far has not been able to develop a reliable crop forecasting system."

According to the government-owned Cotton Corporation of India, among the major cotton growing states in the country, Maharashtra is expected to record an output rise of 250,000 bales to 2.3m and Madhya Pradesh's production is projected to be 200,000 bales higher at 1.2m. However, there will be a major crop loss of over 450,000 bales, to 1.8m, in Gujarat, where large areas suffered drought.

The cotton crop will be maintained in other major centres, like Punjab, Haryana, Andhra Pradesh, Karnataka and Tamil Nadu. The quality of the crop is reported to be satisfactory.

As India opened the season with comfortable stocks of nearly 3.3m bales and it is heading for a bumper crop, the government has announced the first instalment of export quota of 500,000 bales for 1993-94. Last year the country exported 1.3m bales out of total sanctioned quota of nearly 1.8m.

India releases cotton exports in stages, depending on the progress of the harvest. This policy attempts to ensure remunerative prices to growers and adequate supplies to textile mills. Indian mill consumption in the current season is expected to be 11.5m bales and non-mill consumption 800,000 bales.

The organisations of growers and traders have found in the agriculture ministry a champion of freedom of cotton exports. According to the parliamentary committee on agriculture, the *ad hoc* export policy is not farmer-friendly and India should remove all controls on cotton exports. The committee believes there is scope, through improved productivity, to increase exports to 2m bales a year. India manages an average yield of only 270kg a hectare, compared with the world average of 600kg.

According to the International Cotton Advisory Committee, cotton export prices in the current season are likely to remain below average, even though imports are projected to increase by 200,000 tonnes to 6.1m tonnes. Latin American importers are expected to account for most of the rise.

Protecting Earth's life-support system

UN scientists see 'biodiversity' as crucial to future food supply, writes John Madeley

A QUARTER of the Earth's plants and animals are in danger of extinction in the next 30 years, raising fears for food supplies for future generations, according to a recent report by the Food and Agriculture Organisation of the United Nations.

Global food production will have to increase by more than 60 per cent in the next 25 years, the organisation estimates, and "biodiversity" is essential for this. Yet about three-quarters of the genetic diversity of agricultural crops have been lost since the beginning of the century, says the FAO, "and the world is increasingly dependent on fewer and fewer crop varieties".

The world's population obtains about 90 per cent of its calories from 30 crop species, it says. Four plants - rice, maize, wheat and potatoes - account for 50 per cent of total calorific intake. Yet there are an estimated 75,000 potential food species in existence, many of them in the tropical forests.

While the introduction of high-yielding varieties of rice, wheat and maize, under the so-called "green revolution" has raised yields, it has caused the replacement of thousands of local varieties of those crops by a few, genetically very uniform varieties. That loss of biodiversity means less plant breeding material is available for the development of new strains of crops, the FAO warns. If a disease wipes out a crop, it is considered vital to have new strains available for farmers so that output can be maintained.

The organisation was one of the chief supporters of the green revolution in the 1960s, but it now stresses that "intensified food production can be achieved by the sustainable use of a broader range of species and genetic material".

"Biodiversity is the source of economic and food security," says the FAO's director-general, Mr Edouard Saouma. The world's richest nations contain the least diversity, while the poorest countries have the richest reserves, "which underscores the interdependency of all nations".

Tropical forests and woodlands contain at least 50 per cent of all known plant and animal species, but are being destroyed at the rate of 15.4m hectares a year, the FAO estimates, causing reductions in the number of species. It believes only about 10 per cent of those forests are being managed in a way that will enable the output of timber to be sustained.

Properly managed tropical forests could provide both timber and non-wood products while safeguarding genetic resources. A number of studies have shown that harvesting non-timber products is more remunerative than logging trees or burning them down.

One study estimated that a hectare of forest on Mishana, Peru, produced fruits and rubber worth $700 a year. After deducting collecting and transport costs, net annual revenues to farmers were just over $400 a year. If a farmer with a hectare of trees chopped then down, earnings would come to around $1,000. In that situation it therefore paid farmers to leave the trees standing and to harvest fruits and rubber from them to earn a regular annual income.

The FAO says the rate of extinction of animal breeds has increased dramatically in the past 100 years, mostly due to the highly specialised nature of modern livestock production. Animal production contributes about 30 per cent to the total global value of food and agriculture. About a fifth of existing breeds are at risk of extinction the FAO estimates, with endangered breeds more likely to be in developing countries.

Although the world fish catch has more than quadrupled over the last 40 years, it is now under considerable pressure, with over-fishing and the use of intensive modern technology having a damaging impact on many fish stocks. The catch in 1992 declined for the third year in a row, to just under 97m tonnes, compared with a record 100m tonnes in 1989.

The overall figures hides an even steeper decline in the fish caught at sea, the FAO says. In 1992, the marine catch was about 80m tonnes, down from about 86m tonnes in 1989.

Commercial fleets are driving some fish species close to biological extinction, destroying natural ecosystems such as coral reefs and seagrass beds. Climate change could affect stocks of fish "in an unpredictable fashion"; global warming could cause changes in the marine habitats and plankton that might lead to shifts in distribution and production.

The FAO plans a major conference on biodiversity in 1995. "Biodiversity is a life-support for the planet - cut it off and we will die," warns Edouard Saouma.

WORLD COMMODITIES PRICES

MARKET REPORT

London Commodity Exchange COFFEE and COCOA prices moved higher in the afternoon. Cocoa, after only a slightly steadier morning, took off with a vengeance in late trading afternoon, the near March jumping £13 at one point to £1,027 a tonne, the highest second position's highest level since July, 1988. Dealers said the market was running into little or no producer selling, which was helping to accentuate the rise. But they thought strong resistance was likely before £1,050. An absence of producer selling was also cited as a factor in coffee's continued advance, which took the January position to $1,296 a tonne at the close, up $40. Base metal prices rallied from earlier lows during late trading at the London Metal Exchange. The three months delivery COPPER price rallied from $1,630 a tonne on speculative buying and short-covering, touching $1,640 before closing at $1,634, down $7 from Tuesday. The ALUMINIUM market found strong support on dips towards the $1,050-a-tonne level for three months metal, which bounced to close at $1,056.50, a tonne up $6.50 on the day.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)(Jan)		+ or -
Dubai	$14.46-4.56z	+0.225
Brent Blend (dated)	$15.62-5.64	+0.37
Brent Blend (Jan)	$15.15-5.17	+0.31
W.T.I. (1 pm est)	$17.41-7.44z	+0.325
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$171-173	+1
Gas Oil	$174-176	+2
Heavy Fuel Oil	$60-62	-0.5
Naphtha	$149-151	+1
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$372.00	-3.5
Silver (per troy oz)♣	453.50c	
Platinum (per troy oz)	$374.25	-2.5
Palladium (per troy oz)	$129.25	-1.1
Copper (US Producer)	79.0c	-0.5
Lead (US Producer)	32.75c	
Tin (Kuala Lumpur market)	11.90r	
Tin (New York)	217.00c	
Zinc (US Prime Western)	Unq	
Cattle (live weight)†	117.09p	+1.03*
Sheep (live weight)†♠	98.57p	+5.13*
Pigs (live weight)†	72.12p	+1.34*
London daily sugar (raw)	$257.4	+1.9
London daily sugar (white)	$284.0	+4
Tate and Lyle export price	$285.50	+3
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£120.5	
Wheat (US Dark Northern)	£185.0	
Rubber (Dec)♥	60.50p	+0.50
Rubber (Jan)♥	60.75p	+0.50
Rubber (KL RSS No 1 Jul)	207.0m	
Coconut oil (Philippines)§	$450.0v	-10.0
Palm Oil (Malaysian)§	$345.0w	+2.5
Copra (Philippines)§	$310.0	
Soyabeans (US)	£202.0	
Cotton "A" Index	55.15c	
Wooltops (64s Super)	360p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. z-Jan v-Dec/Jan u-Dec w-Nov/Dec ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♠Sheep prices are now live weight prices * change from a week ago, provisional prices.

CRUDE OIL - IPE ($/barrel)	Latest	Previous	High/Low	
Jan	16.18	15.86	16.22	15.70
Feb	16.43	16.12	16.45	15.97
Mar	16.63	16.30	16.63	16.20
Apr	16.73	16.47	16.73	16.33
May	16.82	16.60	16.82	16.51
Jun	16.94	16.77	16.94	16.67
Jul	16.97	16.78	16.77	
IPE Index	15.92	15.44		

Turnover 24829 (29252)

GAS OIL - IPE ($/tonne)	Close	Previous	High/Low	
Dec	167.25	164.75	167.25	163.75
Jan	166.75	163.50	166.00	162.50
Feb	164.00	162.00	164.00	161.25
Mar	163.25	160.75	163.25	159.75
Apr	161.25	160.00	161.25	159.00
May	161.25	160.00	161.50	159.00
Jun	161.75	160.00	159.50	159.25
Jul	163.00	161.75	163.00	150.00
Aug	164.25		164.25	

Turnover 14526 (13093) lots of 100 tonnes

SUGAR - LCE ($ per tonne) White	Close	Previous	High/Low	
Mar	275.00	276.30	278.50	273.00
May	278.00	278.50	279.50	275.00
Apr	283.00	282.30	283.00	283.00

Turnover 550 (780) Paris- White (FFr per tonne): Dec 1655.01 Mar 1675.29

WOOL

There were some signs this week that the wool market recovery might have spent itself, if only for the time being. In Australia the market indicator after rising to 511 cents a kg. fell back to 503 yesterday, and clearances at two of the three selling centres, Fremantle and Sydney, were less than 90%. softness in the Australian dollar has also had a slight cheapening effect for buyers in many countries. A setback after almost three months of rising prices and an advance of 25% overall is not causing great concern in the trade.

No.7 RAW SUGAR - LCE (cents/lbs)	Close	Previous	High/Low	
Mar	10.45	10.36	10.45	10.35
Jul	11.00	10.93	11.00	10.90

Turnover 99 (65) lots of 50 tonnes.

COCOA - LCE (£/tonne)	Close	Previous	High/Low	
Dec	981	967	981	964
Mar	1021	1013	1027	1007
May	1011	1004	1015	1000
Jul	1008	1005	1010	995
Sep	1007	1006	1009	998
Dec	988	986	990	982
Mar	990	983	991	983
May	992	993	993	990
Jul	994	991		
Sep	997		1002	

Turnover: 10570 (17018) lots of 10 tonnes. ICCO indicator prices (SDRs per tonne). Daily price for Nov 16 984.59 (958.96) 10 day average for Nov 17 918.29 (910.94)

COFFEE - LCE ($/tonne)	Close	Previous	High/Low	
Nov	1287	1239	1265	1250
Jan	1296	1256	1298	1252
Mar	1247	1226	1251	1230
May	1230	1214	1233	1213
Jul	1228	1213	1220	1214
Sep	1231		1233	

Turnover: 7604 (4545) lots of 5 tonnes. ICO indicator prices (US cents per pound) for Nov 16 Comp. daily 70.01 (68.54) 15 day average 69.29 (69.11)

POTATOES - LCE (£/tonne)	Close	Previous	High/Low	
Mar	111.0	100.5	110.0	107.0
Apr	91.8	93.8	93.0	91.7
May	107.5		107.5	106.0

Turnover 132 (60) lots of 20 tonnes.

FREIGHT - LCE ($10/index point)	Close	Previous	High/Low	
Nov	1280	1300	1300	1279
Dec	1280	1301	1300	1279
Jan	1285	1301	1300	1280
Apr	1305	1311	1310	1298
Jul	1153	1195	1190	1170
BFI	1300	1306	1300	

Turnover 297 (76)

GRAINS - LCE (£/tonne) Wheat	Close	Previous	High/Low	
Jan	98.90	98.75	98.90	98.50
Mar	100.65	100.65	100.65	100.35
May	102.65	102.65	102.65	102.35
Sep	90.75		91.00	91.00
Nov	92.00		92.00	92.00
Barley	Close	Previous	High/Low	
Jan	103.85	103.65	103.75	103.75

Turnover: Wheat 160 (121) Barley 2 (5)
Turnover lots of 100 Tonnes.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 44,284 lots
Cash	1032-3	1027-28		1038-38.5		
3 months	1054-5	1049-50	1085/1052	1060-60.5	1056.5-7.0	255,399 lots
Copper, Grade A ($ per tonne)						Total daily turnover 59,026 lots
Cash	1613.5-4.5	1618.5-19.5	1607	1606.5-07		
3 months	1637.5-8.0	1642-43	1640/1629	1630-31	1634-5	197,712 lots
Lead ($ per tonne)						Total daily turnover 4,539 lots
Cash	398-9	399.5-400.5		399-99.5		
3 months	412-2.5	413.5-14	415/412	412.5-13	412-3	24,739 lots
Nickel ($ per tonne)						Total daily turnover 5,882 lots
Cash	4607-12	4635-40		4570-75		
3 months	4670-2	4697-700	4700/4620	4630-35	4695-700	47,482 lots
Tin ($ per tonne)						Total daily turnover 2,083 lots
Cash	4600-5	4635-40	4610/4605	4612-15		
3 months	4650-5	4685-90	4690/4650	4660-65	4650-5	14,225 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 25,745 lots
Cash	925.5-6	928.5-29.5	921.5	921.5-22		
3 months	943-4	946-47	945.5/937	938.5-40	945-5.5	79,008 lots

LME Closing £/$ rate: SPOT: 1.4770 3 months: 1.4689 6 months: 1.4623 9 months: 1.4566

LME AM Official £/$ spot rate 1.4775

LONDON BULLION MARKET (Prices supplied by N M Rothschild) Gold (troy oz)	$ price	£ equivalent
Close	371.75-2.25	
Opening	373.90-4.30	
Morning fix	373.70	253.013
Afternoon fix	371.80	251.131
Day's high	374.10-374.50	
Day's low	370.80-370.50	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	2.70	6 months	2.70
2 months	2.70	12 months	2.72
3 months	2.70		

Silver fix	p/troy oz	US cts equiv
Spot	305.05	453.00
3 months	312.15	456.30
6 months	315.70	461.85
12 months	326.75	470.55

GOLD COINS	$ price	£ equivalent
Krugerrand	375.50-378.50	254.00-257.00
Maple leaf	382.35-384.80	-
New Sovereign	87.00-90.00	59.00-62.00

TRADED OPTIONS Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jan	Apr	Jan	Apr
1025	38	63	15	20
1050	24	48	26	30
1075	14	38	41	42
Copper (Grade A)	Calls		Puts	
1625	38	71	31	42
1650	24	58	44	54
1675	16	47	60	67
Coffee LCE	Jan	Mar	Jan	Mar
1150	150	140	4	43
1200	107	110	11	63
1250	71	85	25	88
Cocoa LCE	Dec	Mar	Dec	Mar
875	106	157	-	11
900	81	137	-	16
925	56	118	-	22
Brent Crude	Jan	Feb	Jan	Feb
1600	43		46	62
1650	22	49		85
1700	10	29		

New York

GOLD 100 troy oz.; $/troy oz.	Close	Previous	High/Low	
Nov	374.1	374.1	0	0
Dec	377.0	374.6	377.5	369.6
Jan	378.2	375.6	0	0
Feb	379.2	376.6	379.5	371.5
Apr	381.0	378.4	381.2	373.0
Jun	382.9	380.3	383.3	375.0
Aug	384.7	382.1	379.6	379.6
Oct	386.5	384.0	0	0
Dec	388.6	386.0	387.5	381.6

PLATINUM 50 troy oz; $/troy oz.	Close	Previous	High/Low	
Nov	383.0	383.0	0	0
Jan	376.5	378.8	378.8	374.0
Apr	380.2	380.3	380.0	376.0
Jul	381.0	380.8	380.0	377.0
Oct	382.5	382.8	378.0	378.0

SILVER 5,000 troy oz; cents/troy oz.	Close	Previous	High/Low	
Nov	459.8	465.5	0	0
Dec	460.2	456.0	461.0	450.0
Jan	461.6	457.4	0	0
Mar	464.9	460.7	466.0	456.0
May	467.9	463.7	465.0	458.0
Jul	470.8	466.7	472.0	469.5
Sep	474.0	469.9	467.0	466.0
Dec	478.7	474.6	474.5	469.0
Jan	479.8	475.7	0	0
Mar	483.9	479.8	477.5	475.0

HIGH GRADE COPPER 25,000 lbs; cents/lbs	Close	Previous	High/Low	
Nov	73.15	73.35	73.15	72.95
Dec	73.15	73.35	73.35	72.50
Jan	73.35	73.55	73.50	73.50
Feb	73.65	73.85	0	0
Mar	73.95	74.15	74.15	73.35
Apr	74.20	74.40	0	0
May	74.40	74.60	74.40	73.90
Jun	74.60	74.80	74.70	74.10
Jul	74.85	75.05	74.60	74.60
Aug	75.10	75.30	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel	Latest	Previous	High/Low	
Dec	17.11	18.77	17.19	16.56
Jan	17.48	17.08	17.55	16.89
Feb	17.72	17.34	17.78	17.16
Mar	17.88	17.54	17.92	17.38
Apr	17.99	17.69	18.06	17.56
May	18.16	17.83	18.16	17.70
Jun	18.28	17.97	18.28	17.84
Jul	18.38	18.09	18.38	17.95
Aug	18.46	18.20	18.45	18.15
Sep	18.42	18.32	18.42	18.25

HEATING OIL 42,000 US galls, cents/US galls	Latest	Previous	High/Low	
Dec	52.56	51.13	52.70	50.85
Jan	53.35	52.00	53.56	51.80
Feb	53.75	52.45	53.90	52.30
Mar	53.15	52.05	53.10	51.95
Apr	52.25	51.40	52.40	51.40
May	51.60	50.75	51.60	50.75
Jun	51.65	50.60	51.50	50.50
Jul	51.85	50.85	51.30	51.30
Aug	52.00	51.15	52.00	52.00
Sep	51.75	52.10	0	0

COCOA 10 tonnes;$/tonnes	Close	Previous	High/Low	
Dec	1221	1214	1227	1195
Mar	1256	1250	1259	1234
May	1270	1261	1270	1248
Jul	1284	1272	1286	1263
Sep	1295	1283	1282	1280
Dec	1308	1296	0	0
Mar	1312	1300	1307	1303
May	1326	1314	1316	1300
Jul	1341	1329	0	0
Sep	1353	1341	0	0

COFFEE "C" 37,500lbs; cents/lbs	Close	Previous	High/Low	
Dec	74.85	75.65	76.15	74.80
Mar	76.15	78.65	79.10	76.00
May	78.65	80.05	80.65	79.65
Jul	80.00	81.50	82.05	81.00
Sep	81.50	83.00	83.00	82.25
Dec	85.50	85.40	85.50	85.00
Mar	86.50	87.26	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs	Close	Previous	High/Low	
Mar	10.16	10.14	10.29	10.08
May	10.39	10.35	10.49	10.30
Jul	10.52	10.49	10.59	10.42
Oct	10.36	10.37	10.46	10.30

COTTON 50,000; cents/lbs	Close	Previous	High/Low	
Dec	58.40	58.60	58.55	58.10
Mar	60.18	60.57	60.49	60.02
May	61.30	61.77	61.60	61.22
Jul	62.34	62.85	62.75	62.25
Oct	62.75	62.97	62.90	62.75
Dec	62.75	63.00	63.00	62.60
Mar	63.82	63.87	0	0
May	63.87	64.12	0	0

ORANGE JUICE 15,000 lbs; cents/lbs	Close	Previous	High/Low	
Jan	109.90	109.75	111.80	108.50
Mar	112.35	112.00	113.70	110.50
May	113.90	113.50	115.75	113.00
Jul	115.40	115.00	116.20	116.20
Sep	116.90	116.50	116.90	116.90
Nov	114.90	114.50	115.50	115.50
Jan	114.90	114.50	0	0
Mar	114.90	114.50	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)			
Nov 17	Nov 16	mnth ago	yr ago
1621.9	1616.5	1588.9	1664.5

DOW JONES (Base: Dec. 31 1974 = 100)	Nov 16	Nov 15	mnth ago	yr ago
Spot	122.46	122.56	121.88	118.23
Futures	134.13	133.88	126.58	118.04

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel	Close	Previous	High/Low	
Nov	682/6	674/2	683/4	672/0
Jan	689/6	681/4	692/0	679/0
Mar	695/4	687/0	697/0	684/8
May	695/6	689/0	697/6	686/4
Jul	698/6	690/2	698/0	688/4
Aug	693/0	686/4	692/0	685/0
Sep	680/4	680/4	680/0	680/0
Nov	678/0	657/2	640/0	656/0

SOYABEAN OIL 60,000 lbs; cents/lb	Close	Previous	High/Low	
Dec	26.17	25.59	26.20	25.54
Jan	26.21	25.64	26.25	25.61
Mar	26.26	25.74	26.37	25.74
May	26.18	25.72	26.20	25.73
Jul	26.11	25.86	26.15	25.61
Aug	25.77	25.42	25.80	25.46
Sep	25.11	24.83	25.15	24.80
Oct	24.38	24.25	24.40	24.08

SOYABEAN MEAL 100 tons; $/ton	Close	Previous	High/Low	
Dec	210.3	210.1	213.6	209.0
Jan	210.4	207.0	210.5	208.0
Mar	209.1	207.1	209.2	206.2
May	208.1	206.1	208.2	205.0
Jul	207.9	205.6	208.2	205.5
Aug	205.7	205.2	205.8	204.5
Sep	203.0	202.6	203.0	203.0
Oct	198.7	198.3	199.5	198.5

MAIZE 5,000 bu min; cents/56lb bushel	Close	Previous	High/Low	
Dec	283/4	278/0	283/6	278/4
Mar	289/6	286/2	290/2	285/2
May	291/0	288/6	291/6	288/2
Jul	290/0	288/0	290/2	286/2
Sep	272/0	271/4	272/0	270/4
Dec	256/4	257/4	258/4	255/4
Mar	262/0	263/0	263/4	261/2

WHEAT 5,000 bu min; cents/60lb-bushel	Close	Previous	High/Low	
Dec	354/0	348/6	355/2	347/4
Mar	351/2	345/6	352/0	345/4
May	337/0	334/4	338/2	332/6
Jul	327/0	325/2	328/2	323/4
Sep	331/0	330/2	331/0	328/6
Dec	339/0	338/0	339/4	337/4
Jul	323/0	323/0	323/0	323/0

LIVE CATTLE 40,000 lbs; cents/lbs	Close	Previous	High/Low	
Dec	73.450	73.400	73.650	73.175
Feb	74.325	74.175	74.350	73.950
Apr	76.325	76.150	76.400	76.100
Jun	73.225	73.000	73.250	72.925
Aug	72.100	71.800	72.200	71.800
Oct	72.100	72.150	72.275	72.050
Dec	73.150	73.100	73.200	73.100

LIVE HOGS 40,000 lb; cents/lbs	Close	Previous	High/Low	
Dec	45.650	45.775	45.825	45.175
Feb	47.425	47.500	47.800	47.125
Apr	47.500	47.525	47.675	47.175
Jun	52.850	53.050	53.100	52.800
Jul	52.175	52.300	52.200	52.000
Aug	51.000	51.200	51.250	50.850
Oct	47.100	47.250	47.200	47.000
Dec	47.875	48.100	48.150	47.875

PORK BELLIES 40,000 lbs; cents/lb	Close	Previous	High/Low	
Feb	53.200	53.400	53.550	52.500
Mar	53.250	53.425	53.475	52.500
May	53.550	54.000	54.450	53.300
Jul	54.650	54.700	54.800	53.850
Aug	54.100	53.725	54.100	52.900

which involve the construction of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is to proceed.

In the Ukraine, unable and

and western nuclear scientists.

Mr Rémy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

economy, supplies of other fuels and other factors over which the nuclear industry has little control.

FINANCIAL TIMES SURVEY

SOUTH AFRICA: Open for investment

Thursday November 18 1993

IN THIS SURVEY

Shaking off the legacy of apartheid

No country in Africa has a legacy that can compare with the traumatic impact of apartheid; but none came to independence with the array of resources that will be at the disposal of the government that will be elected next April, under the constitution agreed yesterday. In this survey of the most powerful economy on the continent, FT writers assess prospects for investment.

Africa editor: Michael Holman
Editorial production: Roy Terry
Illustration: Joe Cummings

A new nation starts to take shape

*Nearly four years after Nelson Mandela's release, South Africa begins a fresh era. **Patti Waldmeir** reports*

YESTERDAY South Africa broke the twisted mould of apartheid, and cast away the bits.

After decades spent fighting the tide of history, which submerged other racist regimes long ago, South Africa yesterday opted to join the modern world. It can now play a full role at the United Nations, rejoin the Commonwealth, become a member of the Organisation of African Unity, and play a much-needed, constructive role in the development of southern Africa and beyond.

Yesterday's agreement on a post-apartheid constitution is the first irrevocable step on the path to full democracy; but it is only a first step. The next few months and years will show whether South Africa's tenure as a democratic nation will be nasty, brutish and short, or stable, happy and prosperous; whether it will substitute black domination for white repression; whether it will defy the logic of divided societies worldwide, and nurture true multi-ethnic democracy.

Though the mould of apartheid has been broken, Africa provides other unfortunate models for the new state: tyrannical regimes which abused power, crushed dissent and lay waste whole economies through maladministration, corruption and theft.

South African politicians, black and white, bridle at the comparison. Finance Minister Derek Keys offers the consensus view when he insists that South Africa "will be totally different from the rest of Africa. It always has been and it always will be".

Economically, that is obviously so. Mr Keys points to South Africa's clear superiority in terms of "indigenous capital", both human and financial. The new leaders will manage the continent's most powerful economy, with gross domestic product equal to 75 per cent of sub-Saharan Africa's gdp, with an economic hinterland which stretches as far north as Zaire, generating half of Africa's electricity. Even in broader international terms, it compares well: with a well developed stock market, banking sector, and body of company law, South Africa offers more to the investor than, for example, eastern Europe; and with foreign debt at US$17.3bn, or 15 per cent of gdp, it is underborrowed by any standard.

In political terms, too, South Africa is different. In 1957, when Ghana became the first African nation to gain independence from Britain, Kwame Nkrumah inherited a position of largely unfettered power. But South Africa's first black president – likely to be the African National Congress leader, Nelson Mandela – will find his room for manoeuvre far more circumscribed, in law, and more importantly, in fact.

"South Africa is too big for the ANC," says one ANC member who bemoans the complexity of a society which imposes manifold constraints on the party of government: he believes they will inhibit the ANC's ability to transform South Africa virtuously; others welcome these constraints as curbs to abuse of power. But all would agree that South Africa does not fit the classic African mould of a society which easily falls prey to bad government.

Strong interest groups counterbalance the power of government: *chief among them is* a strong, diversified and battle-hardened corporate sector; the 1.2m-strong labour federation Cosatu, historically allied to the ANC, *has recently* begun flexing its independent muscle, and is well organised and powerful enough to play the role of democracy's watchdog. The *highly politicised and motivated* township "civics", or community associations, could also prove an important check on government power: for *South Africa's "masses"* are not the fawning crowd which greeted Kwame Nkrumah, African liberator; they are demanding, well organised, *and used to fighting their political* corner.

The list of powerful interest groups outside the ANC's sphere goes on and on: the *1.2m strong civil service* is dominated by Afrikaners, who are scarcely natural allies of the ANC. The defence force, though professional and committed *to supporting* the government of the day, is also Afrikaans-dominated, as is the police.

Last, and arguably least of *the factors constraining an* ANC government, is the constitution agreed yesterday by the main political parties. That constitution was meant to prevent *majority domination* through power sharing: it was supposed to guarantee democracy by ensuring that the minority losers in any majority-rule election would still enjoy a powerful say in government. It falls some way short of so doing: minorities will be represented in government, *with every party earning 5 per* cent of the national vote entitled to a seat in cabinet; but the power of minority parties in cabinet is precarious.

The ANC, which will have both a president and a deputy president, will have its own way on any disputed decision. And though it has promised regular consultation with the second deputy president, drawn from the second largest party (probably Mr F.W. de Klerk, current president), he will have no statutory powers to frustrate Mr Mandela's will.

The constitution fails to deliver other checks and balances which the ruling National Party had insisted were essential. The party's 1991 constitutional proposals called for political power to be divided between three tiers of government – central, regional *and local – with each tier to* have "original and entrenched authority with which other tiers of government may not interfere".

In fact, central government retains wide powers to "interfere" with regional governments: the constitution authorises central government to *intervene in terms so vague (to* impose uniform national norms and standards, to ensure proper regulation, and where there are implications *for national security or eco*nomic policy) as seriously to undermine regional autonomy. And with regions barred from imposing taxes without central *government approval, it is* hard to accept Mr de Klerk's claim that the new state will be "federal".

National Party negotiators believe *that they will not need* entrenched constitutional provisions to play a powerful role in restraining the ANC: they believe the ANC's assurances *that it does not wish to govern* alone (and does not believe it could do so effectively); and they judge their electoral strength will give them an *important say in cabinet*, though only if they are able to better their poll showing of 11 to 13 per cent.

But clearly, the National *Party has settled well below its* bottom line on crucial issues; probably, it had no choice. As a minority government whose power *diminishes* by the day, negotiators calculated that a deal done now would be preferable to that available next month or next year. And whatever *the shortcomings of the* constitution, agreement is better than continuing deadlock. Though it is not strong enough, it is far from illiberal, *and should help to reinforce* democratic forces.

But if South Africa does escape some of the more grotesque abuses of power for *which Africa is famous, it is* scarcely likely to become a prosperous liberal democracy overnight.

The new bill of rights *enshrines tough emergency* powers which can be used to restore stability after the April 27 elections. Agreement seems to exist between the ANC and NP that restoring stability, through temporary repression, is the highest post-election priority.

According to this scenario, democracy will be a temporary casualty while the new government pursues stability and eco*nomic development; and if it* succeeds in restoring law and order without repeating the oppression of the past, it will be widely popular with an elec*torate (white and black) fed up* with crime and violence.

Much will depend on whether the mainly Zulu Inkatha Freedom Party of *Chief Mangosuthu Buthelezi* can be persuaded to participate in next year's elections: though he has made clear that he rejects yesterday's constitution, he could decide he has more to gain by fighting rather than boycotting an election. If *he actively opposes the poll*, the security situation could become untenable, especially if the white right wing, now in tactical alliance with Inkatha, *also opposes the election. The* ANC and NP must guarantee that there is critical mass at the political centre, and that the crackdown need only sup*press the lunatic fringe.* If Inkatha and the right wing, with their numbers and their firepower, are to be suppressed in unison, stability may be unattainable.

But in the end, it is economics – and not politics – which *will seal* South Africa's fate. For yesterday's constitution marks a decisive shift in electoral power from the "haves" to the "have-nots" of South *African society.*"

Popular expectations will soon strain the intentions of even the most benevolent government; at that point, it must *either give in to populism, or* suppress it.

The latter now seems most likely: the new South Africa will start with a hefty dollop of the old. That will be unfortunate, but bearable; what will destroy South Africa's democratic prospects forever is failure to deliver a better economic deal to the masses. It is a tall order.

President FW de Klerk (left) and African National Congress leader Nelson Mandela (right) yesterday reached agreement on a new constitution. Still to give his consent is Chief Mangosuthu Buthelezi (centre) head of the Inkatha Freedom Party (IFP). Leading figures in South Africa's history in the background (anti-clockwise) include Shaka (top left), who welded a number of tribes into the mighty Zulu nation; Jan van Riebeeck, founder of the white settlement in 1652; Jan Smuts, prime minister 1919-24 and 1939-48, who was one of the founders of the UN; Albert Luthuli (1898-1967), president of the ANC during the heyday of apartheid in the 1950s and 1960s; Hendrik Verwoerd, prime minister 1958-66, architect of apartheid; and Paul Kruger, president of the Transvaal republic during the Boer War (1899-1902)

POLITICS

Patti Waldmeir identifies who's who in the new South Africa

Power people in waiting

AFTER nearly four years in the news, everyone knows Messrs Nelson Mandela and F.W. de Klerk, who are likely to remain the two most important men in South African politics. Their relationship will change: Mr Mandela is overwhelmingly likely to take over as president, while Mr de Klerk will be relegated to the status of second deputy president, behind another deputy from the ANC who will act as de facto prime minister to Mr Mandela. But their strengths and weaknesses will remain the same, however their titles may change: to the outside world, they are largely a known quantity.

But the new government will be influenced by a host of politicians whom outsiders know either less well, or not at all. Some have emerged from the trade union movement, some from the ranks of the African National Congress in exile, some from its guerrilla wing and others from the enlightened wing of the National Party. Others still come from Inkatha, or the corporate world.

Predicting who will be who in the new South Africa is inevitably an inexact science: partly, it will depend on the scramble, only now beginning, to reach the top of each party's electoral list (voters will not choose individual members of parliament, but will vote a straight party list). Lists will be chosen by parties themselves: in the case of the ANC, after strong input from the membership.

But some individuals seem almost certain to rise to the top of the pile, whether electorally, or by exercising influence outside parliament. They are:

Roelf Meyer: from the ranks of enlightened nationalists

Thabo Mbeki: could well fill the post of first deputy president

Cyril Ramaphosa: insists he will not enter parliament

Thabo Mbeki: recently promoted to the post of ANC national chairman, Mr Mbeki could well fill the post of first deputy president under Mr Mandela. (This post might naturally have gone to Cyril Ramaphosa, ANC secretary general, but he insists he does not want it). Mr Mbeki, for many years the head of the ANC's department of international affairs, is urbane, moderate, articulate and the darling of the business community.

Son of one of the ANC's most famous elder statesmen – radical Govan Mbeki, 83, who is now retired – Mr Mbeki was born in 1942 and took an MA in economics from Sussex University. During nearly 30 years in exile, he developed the kind of middle-class tastes which reassure whites, and cheer the hearts of foreign investors: nattily dressed and puffing on the ubiquitous pipe, Mr Mbeki speaks the language of the monied classes while mysteriously retaining grassroots support at the same time.

Cyril Ramaphosa: No less charming than Mr Mbeki – and becoming a rapid convert to South Africa's unrivalled version of the "good life" – Mr Ramaphosa insists he will not enter parliament, but will stay to build the ANC for the crucial, post-liberation elections in 1999. Mr Ramaphosa had a solid popular base in the National Union of Mineworkers which he left to become ANC secretary-general in 1991 but has spent almost all his time since locked in negotiations with the government and other parties. His image has suffered as talks have dragged on, and he risks being blamed for concessions made; but the truth is that this witty 41-year-old, a consummate negotiator, has outmanoeuvred the government on many crucial issues, and delivered a deal which favours the ANC. His economic views lean toward the socialist – though he keeps them hidden – and he is likely to prove effective in building the ANC's constituency.

Derek Keys: Mr Mandela can send no more powerful signal to foriegn investors than to keep Mr Keys on as finance minister in the new Government. As National Party minister of finance, Mr Keys, 62, has trodden carefully with the anti-apartheid opposition, bringing them along with him every step of the way to a new debt rescheduling deal, a joint pitch on foreign investment, and a commitment on fiscal discipline to the International Monetary Fund. After 30 years as one of South Africa's top businessmen, Mr Keys is a technocrat rather than a politician, and may well survive into the new era. Likewise, his respected counterpart at the South African Reserve Bank (central bank), **Chris Stals**, who has done much to tame inflation and restore international financial credibility.

Roelf Meyer: chief government negotiator. Mr Meyer, 46, hails from the ranks of the enlightened nationalists. He and colleagues Leon Wessels, Dawie de Villiers and Sam de Beer see a bright multiracial future where whites will continue to exercise influence by virtue of their strength in the civil service, the economy and the security forces.

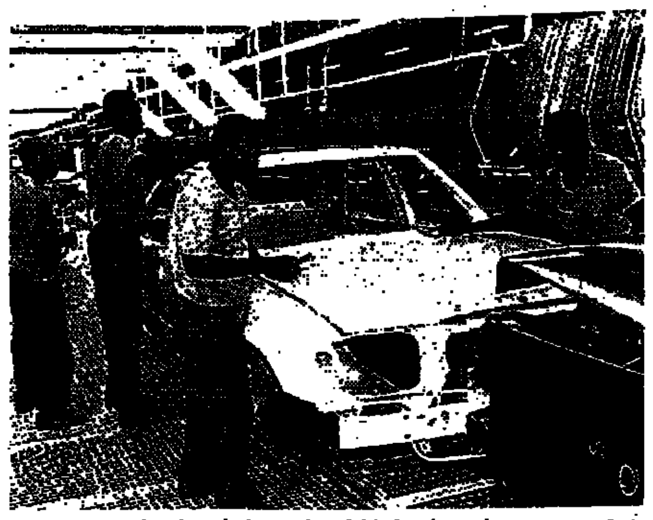
Joe Slovo, chairman of the South African Communist Party, has arguably done more to deliver a moderate constitutional deal than anyone apart from Mr Mandela himself. Despite his socialist economic views, he is likely to be a force for pragmatism for some time to come. **Jacob Zuma**, one of the few leading Zulus in the ANC, is almost guaranteed a top position. Sober and reasonable, he has handled delicate negotiations with Inkatha well. **Tokyo Sekwale**, voted the sexiest man in Johannesburg in a recent radio poll, is a charismatic populist of far more radical views; he is likely to try to push ANC economic policies in a radical direction. **Sam Shilowa**, recently elected general secretary of the largest union federation, Cosatu, will fight for union independence under the new government, and will not be shy to use his power if government forgets its commitments to the masses. **Moses Mayekiso**, head of the South African National Civic Organisation, will also prove a radical focus.

Last and most difficult to assess, **Chief Mangosuthu Buthelezi**, leader of the Inkatha Freedom Party, will play a principal role from within or without the new government. With his irritable and unpredictable personality, he is likely to prove difficult to manage, whether he accepts or rejects the deal. Only time will tell which he will choose.

Patti Waldmeir

INDUSTRIAL RELATIONS

A convenient cohabitation



Driving force: 'the struggle for worker rights has begun' Glyn Genin

THE African National Congress is heading for power next April with the Congress of South African Trade Unions (Cosatu), the country's main labour grouping, as its chief backer. Former Cosatu organisers will be prominent on the ANC slate of election candidates, and the ideological compatibility between the two is close.

Still, however, their relationship is little more than a convenient cohabitation. Back-room spats and whispered recriminations are becoming more audible, though both parties will continue to attempt to stifle such noises until after polling day.

A break-up is likeliest to come in the 1994 public sector pay round, when Cosatu will demand its palimony.

Last Thursday, Cosatu called off a one-day national strike planned for Monday – aimed largely at curbing employers' constitutional rights on lock-outs – after the ANC leadership made clear that it would not countenance such disruption in what should be a triumphal week. Cosatu leaders, summoned to private talks at the World Trade Centre, were provided with a face-saving formula but no real gains.

Mr Sam Shilowa, Cosatu's new general secretary, is unrepentant. "Trade union independence is very important," he says. "Cosatu would be foolish if it cannot look at the [draft] constitution and ask what issues would adversely affect its own members."

Asked what the threatened stay away, followed by climb-down, achieved, he adds: "One can say that the struggle for worker rights has begun. We are not a junior partner or appendage of the ANC." Disagreements between the two, in other words, would not always end in this way.

Mr Andrew Levy, a labour consultant, warns: "Cosatu will determine what happens to this economy."

With some 1.2m members spanning sectors from mining to textiles to banking to teaching, Cosatu has an agenda which is in some ways supplementary to that of the ANC and in others places differing stresses or priorities on the same basic goals.

As would be expected, both say they will seek to ensure an end to workplace discrimination, on gender and other grounds as well as race. Beyond that, they require affirmative action to purge the legacy of apartheid.

Neither of these is yet much of an issue for large employers, particularly multinationals which have been running ahead of the game in promoting blacks. Unsurprising disgruntlement is being heard from some white staff in such companies, but rather more acute workplace difficulties may surface next year if black unions decide that, even so, the pace of change is not to their satisfaction.

What is likely to set the ANC and Cosatu apart is wage restraint. This would be part of "co-determination", currently the most commonly bandied catch phrase in industrial relations. Mr Shilowa professes not to know what it means – and fairly so, because its usage seems to vary.

In the public sector, the implication from the ANC government-in-waiting is that black workers are already substantially better off than the 45 per cent or so who are without any formal employment. Thus they should accept wage rises next year substantially below the country's 9 per cent inflation rate so that cash can be channelled to upliftment programmes elsewhere. In return, unions should be given a say in reconstruction and development planning.

Private sector companies, equally loath to make inflationary pay awards, are here and there offering seats on the board for labour representatives to instil a sense of participation in decision making. From Cosatu's point of view, though, these are often baubles rather than ballast for its cause.

Some sort of accommodation between labour and capital is necessary to set the new dispensation on course; all but the most radical agree, but attempts at cosmetic corporatism are being treated with suspicion. Labour activists are demanding that a strategic view be taken across each industry, with retrenchments and new entrants alike being given equal scrutiny. To take three examples:

■ At the National Union of Metalworkers of South Africa (Numsa) – one of Cosatu's two largest member unions along with the National Union of Mineworkers – Mr Bernie Fanaroff maintains that some of the country's vehicle assemblers are already matching the cost structures of plants in Asia. But, he adds, the three dozen model variants for new cars are too numerous for the market, and further productivity improvements may depend on following Australia in shedding whole ranges.

■ Never mind cars. Mr Shilowa, arguing for an audit of where investment is most needed, asks simply: "Why don't we produce bicycles?" All are imported, most of them from Taiwan.

■ Charity shops selling second-hand clothes donated from Japan and North America have at times been occupied by protesting members of the South African Clothing and Textile Workers Union (Sactwu) on the grounds that even such outlets might erode their jobs. The union is now, however, concentrating on the real threat to employment in its industry posed by prospective Gatt reductions in import tariffs.

What the three have in common is a recognition that solutions to labour questions within specific companies will not in themselves secure, let alone increase, jobs. On imports, there is an acceptance that tariffs will have to be lowered in many instances, but unions argue that this should happen only after inefficiencies have been sorted out and an upgrade taken place in manufacturing technology run down by sanctions and a general decline in capital spending.

Such talks would happen on a tripartite basis among employers, unions and government, and foreign investors would have to accept that they did not have an unfettered right to manage, Mr Shilowa makes clear.

"We want to be involved in industrial restructuring," he says. "To improve productivity, one has to feel a sense of ownership."

He offers some assurances: unions would keep their side of the bargain and could not justify breaking a wage agreement within its lifespan. But any other grievances which surface would be dealt with as Cosatu saw fit. "If co-determination means we are prepared to work with employers – yes. If it means us entering into social pacts without being allowed to strike – no."

Gordon Cramb

Patti Waldmeir on the political parties

ANC way ahead

SOUTH AFRICA'S first elections are likely to be dominated by the issue of liberation from apartheid, and as the primary party of liberation, the African National Congress (ANC) can count on a large "vote of thanks" from black South Africans.

With the widely respected Mr Nelson Mandela as leader, the ANC is expected to win the largest share of the vote – recent opinion polls have shown its support at between 46 and 58 per cent, though pollsters believe a two-thirds vote for the ANC is possible if many of the 25 per cent undecided voters choose not to vote at all (an outcome which would favour the ANC, whose voters are more motivated).

ANC policies are not likely to exert a significant influence on voting patterns in the first elections; opposition will come from those who accuse the ANC of involvement in violence, or from those who view the organisation as Xhosa-dominated (many top ANC officials belong to the Xhosa tribe).

The ANC's stated goal is to create a non-racial multi-party democracy with a mixed economy.

National Party
The new multi-racial National Party appeals primarily to ethnic minorities such as whites, Coloureds and Indians, though it may also win a substantial number of votes from blacks who fear domination by the ANC, or who yearn for law and order.

The National Party's share of recent opinion polls has fallen as low as 11 per cent though it seems likely that this represents a protest vote which could disappear. Most Afrikaners, along with most other whites, are likely to vote for the National Party, along with a large share, perhaps a majority, of Coloureds and Indians. The party's policy is similar to that of the ANC: multi-party democracy with a free enterprise economy (probably freer than that envisaged by the ANC); but the National Party also pledges to fight for minority rights.

Inkatha Freedom Party
Primarily a Zulu party based in Natal, the IFP can probably also claim substantial white support in its regional base. The IFP scores poorly in opinion polls (9 per cent) which focus on towns. However, IFP support is concentrated in rural Zululand and in townships where violence makes polling difficult.

The IFP, like the other two parties, supports multi-party democracy and free enterprise, but believes in strong regional government. It is likely to fight the election on a law and order ticket.

Conservative Party
The white-supremacist Conservative Party gained 800,000 white votes in the 1992 referendum though its support has certainly waned since then.

Still, it represents the only home for whites who reject the new South Africa, and wish to cast a protest vote. It seems unlikely to win a major share of the vote nationally, and may not even win a majority of Afrikaners.

Democratic Party
South Africa's liberal party, the Democratic Party will be lucky to get the 5 per cent of the national vote required for a seat in the cabinet. Though it, too, fought apartheid through the decades, the DP is likely to reap no liberation bonus. Viewed as a weak party, it has no obvious constituency except affluent whites in Johannesburg and some Coloureds and blacks.

Pan Africanist Congress
This ultra-radical black party scores in low single figures in opinion polls. It is likely to fare badly in the first election, although its policy of rejecting accommodation with whites could well become more popular, particularly among young unemployed black South Africans, if the first post-apartheid government fails to deliver immediate fruits of victory. The PAC is a socialist party and its policies are basically pro-black and racist.

of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is to proceed.
In the Ukraine, unable and

and western nuclear scientists.
Mr Rémy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

economy, supplies of fuels and other factors over which the nuclear industry has little control.

THE ECONOMY

The recession is ending, inflation is in single figures, but many hurdles remain, writes **Tony Hawkins**

Business is sitting on its hands and waiting

BARRING dramatic political setbacks, the worst is past for the South African economy.

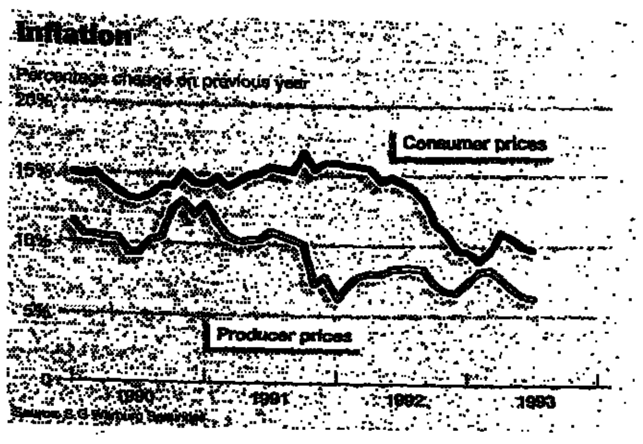
In the closing months of 1993, the country is beginning to emerge from its longest ever recession, with economists predicting marginal GDP growth of around 0.5 per cent this year, accelerating gently to around 1.5 per cent to 2 per cent in 1994. Thus far, the recovery is mainly attributable to the rebound in agriculture from last year's drastic drought, with mining and manufacturing remaining in the doldrums. But from next year all sectors of the economy should start to benefit.

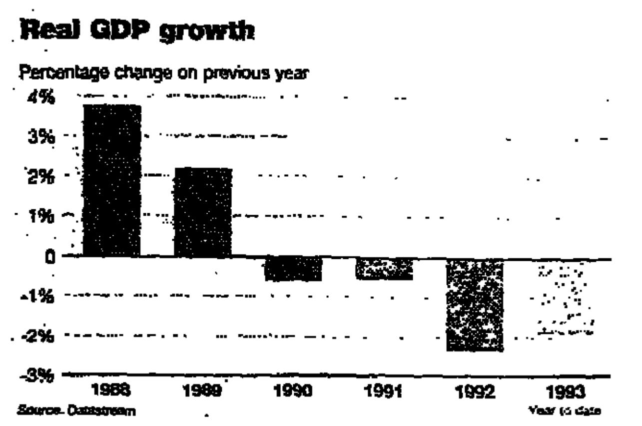
The policy environment is markedly friendlier than in the 1980s. Corporate taxes have been cut, inflation is in single digits (9.7 per cent forecast for 1993) for the first time in 20 years, a new tariff structure is about to be launched and both real wages and real-interest rates have started to fall.

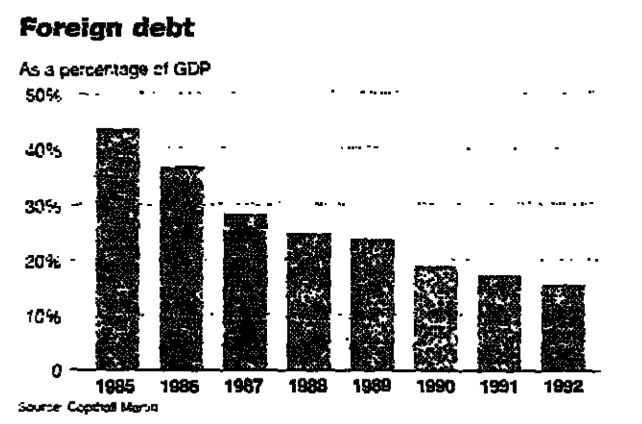
The balance of payments remains a problem area as capital outflows continue and Pretoria is committed to repay over $1bn annually for the next eight years. Bankers and stockbrokers say the country is underborrowed – which it is, with a foreign debt of $17.3bn or 15 per cent of GDP – leaving scope to refinance previous commitments. But such rollovers merely provide a breathing space rather than a solution. This suggests that – in the absence of strong export growth – there will be little room for abandoning the financial rand and liberalising exchange controls, at least until 1995.

The strength, and duration, of the upturn will depend on three main factors; the new administration's ability to restore confidence to a badly-mauled business sector; developments in the global economy, especially the commodity price cycle, and the economic policy framework that evolves in the "new" South Africa.

There are grounds for cautious optimism on all three counts. A reduction in the violence and general acceptance of the election results, would do wonders for business morale, simultaneously opening the door to a strong upturn in public works spending on housing, electrification and roads. On the policy front, finance minister Derek Keys has managed through the National Economic Forum to put together a middle-of-the-road consensus to secure agreements on resolving the debt standstill, an $850m IMF loan, future relations with the World Bank and the crucial GATT Uruguay Round submission that will liberalise and streamline South Africa's tariff structure.







Disconcerting though the latest EC and Japanese numbers may be, South African economists are modestly confident that the commodity cycle has done its worst and that demand and prices for many of the country's key exports – especially gold – will recover in 1994-95. Even so, the upturn is going to be relatively limp through next year, as investors and businessmen sit on their hands until the elections are out of the way and they have some idea of who will be holding the reins of economic power.

Many hope and expect that Mr Keys will retain the finance portfolio, while Dr Chris Stals, whose term as governor of the South African Reserve Bank expires next year, and whose tough monetarism has done so much to reduce inflation, fiscal follies notwithstanding, will be reappointed.

Continuation of the Keys-Stals double-act would certainly calm business and banking nerves, abroad as well as at home, providing much-needed continuity and stability. But whether the ANC is ready to allow whites to retain control over key economic management decisions is unclear.

Mr Mandela and his close aides may be happy with such a transitional arrangement – for two or three years – but already there are demands lower down the ANC hierarchy for some relaxation of monetary and fiscal policy.

Fiscal policy is going to be crucial. While some in the ANC exude moderation, insisting that large tax increases are not necessary, this begs the $64 000 question – how is the country to fund the proposed social upliftment and job-creation programmes? Professor Dennis Davis, an ANC tax adviser, has suggested increased estate duties along with differential rates of VAT so that some basic necessities can be zero-rated while higher rates are applied to luxuries. Some rationalisation too of tax-breaks seems probable thereby raising the effective rate of corporate tax – from around 20 per cent at present – while leaving the basic rate unchanged at 40 per cent. One senior ANC economist, Mr Tito Mboweni, has ruffled feathers with his suggestion of a once-off "reconstruction levy," though this has since been played down.

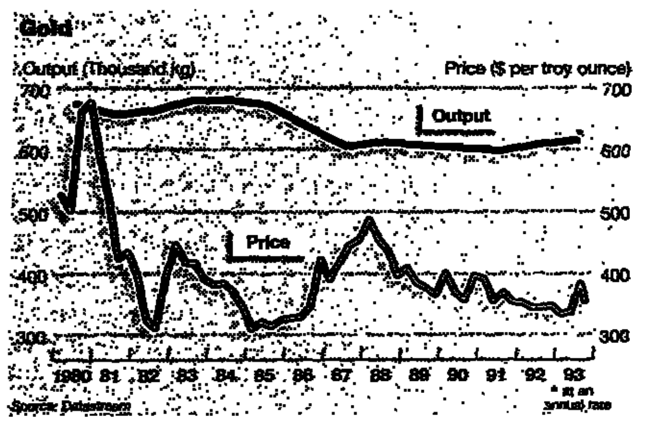
ANC economists believe there is scope to fund upliftment programmes by restructuring government spending.

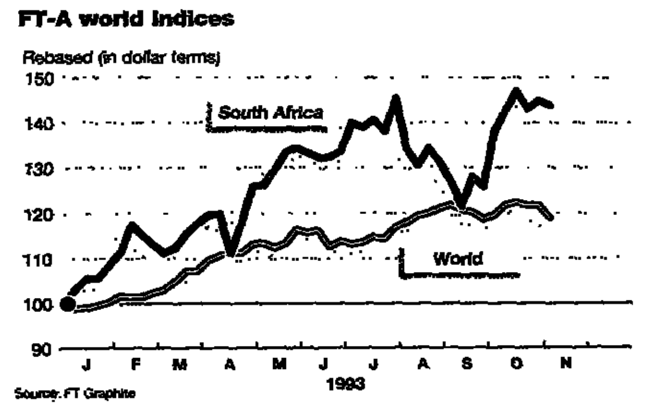
This is questionable; the "peace dividend" from defence cutbacks has been largely siphoned into increased spending on the police, and in a country where crime levels seem destined to remain uncomfortably high, there is little room for savings. Nor is there going to be any "apartheid dividend" since the elimination of wasteful, duplicative spending on social services for blacks and whites, will be offset by a larger public service and the need to establish regional governments and structures. Mr Keys himself believes there is likely to be a net increase rather than saving, and sees his job as minimising that "hump."

One of the conditions of the IMF loan is a reduction in the budget deficit to 6 per cent of GDP in 1994-95, down from the 6.8 per cent forecast for the current year. Mr Keys says that 2 per cent of this represents public sector investment spending, while 2.5 per cent is needed to build up the civil servants pension fund in terms of already-announced political guarantees. He hopes to achieve savings by eliminating the remaining 1.5 per cent of "discretionary" deficit, but it is hard to square his plans with the social upliftment goal.

It has been estimated that racial parity in social service spending would cost almost a quarter of GDP, with education alone requiring 15.4 per cent, more than double the 7.3 per cent provided in 1993-94. Indeed, a "parity budget" would mean shifting 10 per cent of GDP into the social services budget from a budget total of 28 per cent (excluding debt-service expenditure). Since such a target is out of reach, the likely implication is that the ANC's sweetness and light on the tax front will fall foul of political realism on one hand, and the need to deliver some form of liberation dividend on the other. Cost-recovery in the public sector, in the form of user charges for education and health, targeted initially on the better-off, could well be necessary.

The fragile economic strategy consensus will come under strain too on the labour front. While there is broad agreement on the need to put job creation ahead of wage increases, optimism that the lifting of sanctions and increased investment will make a significant dent in unemployment looks misplaced.





Unemployment, estimated at a frightening 46 per cent by the SARB, is the most important single challenge that will face the next government. The optimists argue that the SARB's doomsday scenario exaggerates the problem, citing the 1991 census which found that 19 per cent of the workforce were actively seeking jobs, with one quarter of the black workforce falling into this category compared with only 4 per cent of the whites.

Critics accuse employment pessimists of ignoring the vibrant, fast-growing informal sector that is crucial to any strategy for easing the crisis. In 1989, the Central Statistical Service (CSS) estimated that there were some 304,000 full-time black informal sector operators to which can be added 1.9m part-time informal sector entrepreneurs and 350,000 employees, making more than 2.5m or almost a third of the economically-active black population. Unfortunately though, much of this informal sector activity is described as "survival" rather than "voluntary" entrepreneurship, implying that many self-employed would sooner have a formal sector job.

The formal sector employment conundrum raises a question that few South Africans feel confident to answer: where can the new South Africa develop competitive advantage? Primary sector activities with value-added through beneficiation of minerals is perhaps the most obvious answer, but hardly reassuring given the probability of continued sluggish growth in primary product demand and the possibility of ongoing excess capacity. In any event, such operations are highly capital intensive, creating few jobs.

The finance minister is optimistic though, pointing out that Samcor, which assembles vehicles, takes 34 hours to produce a motor car compared with 44 hours in Western Europe. In the pulp industry, productivity is higher at one South African plant than in Germany. "We have nothing to worry about in terms of productivity," says Mr Keys confidently, arguing that low black worker productivity under the apartheid system reflected demotivation. "There was nothing in it for them." Black people could not move to better areas, nicer homes or send their children to better schools. They were not motivated to improve productivity.

South African businessmen acknowledge that they cannot expect to match the Asians in terms of costs, work ethic or productivity. Their competitive edge is in resource-intensive activities, low-cost energy, a superb infrastructure, and in services such as banking and information technology. In manufacturing though, competitive advantage will depend on investing in skills, technology and training and since this kind of investment does not yield quick returns, success in manufacturing is more likely to be found in niche operations than in any single industry.

Even if the foreign investor is satisfied that the country has put political violence and instability behind it and has the capacity to develop competitive advantage in specific areas, the nagging question remains: why should South Africa be different from the rest of the continent?

Mr Keys brushes all doubts aside. "South Africa is totally different – always has been," he says, putting his finger on what few would dispute is the country's single most important advantage – its powerful, battle-hardened, diversified private sector. "We have" he says, "a lot of indigenous capital here making a return and which has every intention of going on doing that."

POLICY

From civil war to consensus

WHEN Derek Keys took over as South Africa's finance minister in May 1992, one of his key priorities was stopping the economic "civil war". It is a measure of the progress made towards achieving consensus on economic policy that he can now pronounce this "done".

Certainly there will continue to be disputes between the main political players, business and labour. The past two months have offered ample examples: the issue of cellular telephone licences, a rise in the petrol price, trade union rights under a future constitution – all these elicited threats from the ANC and its trade union ally Cosatu (the Congress of South African Trade Unions) ranging from mass action and a national strike, to nationalisation.

In the event, deals were struck and disruption avoided. This represents enormous progress. In the past economic disputes often ended in mass action and conflict. Now they are managed, and a satisfactory resolution is normally achieved. It is a fair guess that this spirit of compromise will inform South Africa's economic policy under a new government. Mr Keys comments: "There is always a way – for this job, that is my motto."

If praise is due, then Mr Keys stands at the front of the queue. More than any other factor, his skills as manager and deal-maker, coupled with an engaging personality and intellectual authority, account for this change.

Considerable assistance, however, has also come from other quarters. Most obviously, the National Economic Forum (NEF), the tripartite body where business, government and labour seek agreement on economic policy, has performed a critical role. The ANC has also played its part with Mr Trevor Manuel, head of the Department of Economics and Planning, spearheading a more flexible and considered approach to economic policy.

The results are impressive. Recent months have seen South Africa make significant economic commitments, all of which enjoyed multi-party support.

These include signing a final debt rescheduling deal, which runs for eight years; agreeing the terms of an $850m loan from the IMF; agreeing the terms of a revised offer to GATT, whereby South Africa's tariff book will be substantially simplified and the average tariff lowered; and agreeing the terms of future relations with the World Bank.

To ensure that South Africa's commitments in these areas enjoyed the necessary political legitimacy, Mr Keys established an ad hoc committee, the Economic Technical Committee (ETC), on which government, the ANC, PAC and Inkatha were represented. In all four of the above cases, the ETC agreed the final terms.

Tensions still exist between – roughly – the ANC/Cosatu on one side, and government/business on the other but the crucial differences are the way in which these issues are handled.

The latter is testimony to considerable policy movement from the ANC in particular. Certainly, the organisation and some of its leaders have not totally shaken off their socialist vision. Both Mr Mandela and Mr Ramaphosa, ANC secretary-general, have let the dreaded nationalisation word slip in the past two months. But, as one commentator noted: "The movement is clear, if not always convincing – but it's not a trick."

Currently, the ANC is best characterised as being a reluctant convert to market economics. If it has left behind the days in which it was firmly committed to nationalising the mines, banks and "commanding heights" of the economy, it still retains a touching faith in the state as a powerful agent to do economic good. It remains as sceptical as ever, however, of Adam Smith's invisible hand. The search is on, therefore, for some sort of "third way", with countries such as Germany and Sweden, notwithstanding their respective difficulties, cited admiringly.

Although some ANC spokesman have started increasingly to say "the right thing" – justifying, for example, their commitment to a vigorous anti-trust policy in terms of the need to promote the efficiency of markets – some doubts remain.

Thus, while Mr Mandela has taken to vigorously beating the foreign investment drum since calling for the lifting of economic sanctions in September, he still continues to "invite" investors to come to South Africa to "help", as if that were their main concern.

Domestically, the economic focus of an ANC government will be on a programme of "national reconstruction", with the aim being to visibly uplift the lot of its followers. This will basically be a case of "more of the same" since the past three budgets have already had a heavy emphasis on redistribution, with essentially the same purposes in mind.

In the past economic disputes often ended in mass action and conflict. Now they are managed, and a satisfactory resolution is normally achieved

While this envisages a heavy role for the state in areas such as public works programmes, this should take place within reasonable fiscal limits. Not only is the ANC on record as saying macroeconomic balance must be maintained, but it has also acknowledged that South Africa is already highly taxed. It is committed, in terms of the IMF loan letter of intent, to limiting the budget deficit (6 per cent of GDP is the target in 1994/5). There is also little evidence that a new government will interfere with monetary policy, though business is likely to lobby for some let-up in pressure.

Of privatisation, little is likely to be heard. While commercialisation of state corporations – notably Posts and Telecommunications and Transnet – is under way, the ANC remains set against the concept. Mr Keys's judgment is that "the final step to privatisation will require substantial disappointment with other routes first".

A much more difficult longer term question facing a new government will be the restructuring of trade and industrial policy. Sanctions, and efforts to combat them, have left some areas of the economy uncompetitive in the international market.

Mr Eugene van As, executive chairman of pulp and paper group Sappi, cites the example of the truck that draws up to his factory gate: it probably costs 100 per cent more than the price his international competitors pay, the tyres are probably 30 per cent more expensive and the spares double the cost. He adds that if he were able to buy five chemicals at the price his US competitors pay for the same products, he would virtually double Sappi's earnings.

Ironing out these distortions in the economy will take wisdom, time and sacrifice. How much is available is unclear. While Gatt has said it understands South Africa needs time to address these problems, this has not stopped it rejecting what it regards as excessive tariff protection for South Africa's beleaguered clothing and textiles sector (proposals of 60 per cent for clothing and 45 per cent for household textiles under the latest Gatt offer).

In terms of its other international economic relations, a future government is likely to take a fairly robust stance. The ANC/Cosatu, for example, has made clear that it has no taste for a supplicant relationship with the IMF and World Bank, with economic policy decided in Washington. Current economic policies are broadly consonant with IMF norms, and no World Bank finance is expected much before the end of 1994. Funds for development are available locally; the priority now is to work out how these should be spent. Only later will the need for Bank finance emerge.

The other two important relationships will be with the European Union (EU) and neighbours in the region.

The former is important because South Africa does not belong to any economic grouping, and the EU is its largest trade partner. It looks unlikely that South Africa will accede to the Lomé convention, which offers concessionary trade terms. More likely will be some sort of bilateral framework agreement which can be negotiated much more quickly, while also offering substantial market access benefits.

As to the region, a new government will probably want to join the Southern African Development Community (SADC), if only to show solidarity with many of its allies in the frontline states.

Present indications are, however, that co-operation is likely to focus initially on functional issues such as power and transport with more grandiose visions of economic integration lying some way further in the distance.

Philip Gawith

Philip Gawith finds that business is looking on the bright side

Starry-eyed optimism

SOUTH AFRICA'S business community is either foolish, or possessed of great faith. Whichever the explanation, it is difficult to find a senior business executive who is not optimistic about the future. Considering the seismic changes occurring in the country, this is an amazing state of affairs.

In part, businessmen are simply talking to their book. Businesses will stand or fall depending on how the country's fortunes wax or wane. With the alternative too ghastly to contemplate, they choose, understandably, to look on the bright side.

There is also the punch-drunk factor. Businessmen reason that having lived through and survived the 1980s, there is little left to fear. Then business was faced with a government that did not care a fig for it, in a country experiencing serious domestic political unrest, and pariah status in the international world. Can things get worse?

Clearly they can, and it would be wrong to suggest that business is possessed of a facile optimism at odds with events in the country. Indeed, there has hardly been an annual report issued in the past two years where the detrimental effects of violence and political instability on business has not been lamented. But people rightly treat the possibility of uncontrollable violence as a worst case scenario and plan from a more optimistic premise.

More plausible a scenario is that a future government, set on advancing the lot of black business, could make onerous demands that seriously impede the ability of companies to operate freely.

But this scenario is not given much credence in the business community. With the country just emerging from a four-year recession, businessmen are not about to let politics quench their ardour. Although some companies reporting recently have turned in good results, this has in most cases been due to extraneous factors, such as a weak exchange rate and lower corporate tax, or simply running a tight ship.

But although trading conditions remain grim, business is keen to whet its lips again looking to the rise of more than 30 per cent per annum in corporate profits in the late 1980s.

This optimism explains why the South African Chamber of Business's (SACOB) confidence index rose to a three-year high in October.

However, there are some who believe next year's trading conditions will be poor because of disruption during the elections.

Time could prove the business community to be starry-eyed in its benign assessment of the impact of political change. This optimism, however, is not baseless. While business and the ANC may not yet have reached the position of being ideological bedfellows, the *toenadering* (coming together) that has taken place since the ANC was unbanned has been remarkable. ANC leaders' diaries are chock-a-block with appointments to breakfast, lunch or dine with businessmen. Businessmen, for their part, are not averse to letting slip that they are on first name terms with ANC heavyweights.

Brian Gilbertson: able to play again on the world stage

Indeed, one of the more interesting features of the "new South Africa" is watching how companies try and position themselves for the future. Lining up in the robust corner is Anglo American, South Africa's largest company, which has always followed the adage "We don't want to be loved. We want to be respected". To its credit, it has never been afraid to stand up and be counted, and there can be little doubt that this has borne fruits. In the area of anti-trust for example, while the jury is still out on what sort of policy South Africa will eventually get, Anglo's muscular defence of its size has helped focus and improve the quality of debate.

Others, however, favour the softly-softly approach, downplaying deficiencies in ANC policy and not seeing all differences as issues of principle that need to be confronted. Businesses normally arrive at this perspective by two different routes. Some have genuinely good relations with the ANC, the product of commendable liberal track records and a belief that they are dealing with "good" men. Others are opportunistic, jumping ship after years of obeisance to the National Party. This is not necessarily a bad thing. They may lack principle, but they are "operators" and their willingness to engage with the ANC has played its part in selling the case for business.

Just as companies take different views on how they relate with politicians, so they take different approaches to how they should respond to change. All businesses, of course, are required to take a closer look at "soft issues" such as affirmative action, black advancement and social responsibility programmes, safe in the knowledge that a new government will pay more attention to these issues. Although politicians may never be satisfied with business efforts, there can be no doubt about the considerable time and effort going into these areas.

Beyond these issues, however, the scope to do business differently depends to a large extent on the business you are in. With production-driven business such as mining, the basic process of pulling ores out of the ground and shipping them to foreign markets remains fundamentally the same, regardless of political and social changes. Not so, however, for companies that interface more closely with the consumer. Here the battle is on to capture the spending of the emergent black consumer and this produces distinct challenges in product development.

The consumer market, of course, is not the only growth market of the future. Indeed, optimists are inclined to argue that political democratisation will unleash enormous benefits for the economy as a whole. Mr Grant Thomas, executive chairman of consumer industrial group Malbak, comments: "South Africa's huge advantage is that enormous multiplier effect within its own borders, greater than anywhere except China and the old Soviet Union. The market traditionally only served 20 per cent of the people."

For South Africa's larger companies, a key benefit of political reform is that it has again allowed them to play on the world's stage. Mr Brian Gilbertson, chairman of Gencor, comments: "If you have a good product you don't just stay in your home town." South Africa's large corporates were, during the sanctions era, severely hamstrung.

But the catch-up process has now begun. South African mining houses are swarming over the rest of Africa and in parts of South America and Europe, while industrial companies like Sappi and the then Royal Foods (now Del Monte International) have made large offshore transactions. Exchange control remains a considerable impediment to the internationalisation of activities, but South African companies are at least part of the hunt again.

While change is the word on the minds of most businessmen, others also see a large measure of continuity – if not in the way they do business, then certainly in the challenges that face them.

CONSUMERS

Retailers woo black buyers

"CHOOSE BLACK Like Me" exhorts a poster at the World Trade Centre, the Johannesburg venue for the multi-party talks. But it turns out to be addressed to the consumer rather than the voter, advertising nothing more epoch-making than a range of hair care products.

Black consumers, particularly those in urban areas, are becoming the focus of the South African retail sector in recognition of the sheer size of the market and the expectation that wage differentials with whites will continue to narrow.

On average a black household still has an income only one sixth of that of its white counterpart, is likely to have more offspring to support, as well as dependent members of the extended family often living in rural areas. A survey by the Bureau of Market Research at the University of South Africa shows that metropolitan blacks commit 7.5 per cent of their household expenditure to the support of relatives.

This compares with only 0.2 per cent for those living in the quasi-independent "homelands" who are more likely to be recipients of remittances from city breadwinners.

Given such burdens, opportunities for discretionary spending – and for those businesses seeking to attract it – seem limited. Holidays, for example, absorb a bare 0.3 per cent of black outgoings.

So, it is no surprise that the South African retail and consumer products industries have most conspicuously reorientated themselves to urban blacks in sectors such as food (which takes 20.4 per cent of their household spending), clothing and footwear (8.1 per cent), alcohol (6.5 per cent) and tobacco (4.8 per cent).

Edgars, the clothing chain with nearly a fifth of all sales in its sector, now has close to half its revenues coming from blacks, according to a retail industry analyst at a stock-broking firm.

Blacks now consume some 80 per cent of all lager drunk in the country, shifting away from home-brewed sorghum beer and helping the near-monopoly South African Breweries (SAB) maintain volumes.

Checkers, the supermarket chain which merged with Pepcor, owner of the down-market Pep clothing shops, has converted many of its stores into cheaper-line Shoprite outlets and held prices down.

Mr Mervyn Serebro, managing director of OK Bazaars, says: "Our customer is now the emerging nation. There is no embarrassment in saying we are not in the crayfish and caviar business." OK is targeting middle-income blacks rather than the "fringe of affluence," of whatever colour.

All advertise extensively in black media such as the Sowetan newspaper, conscious of the need to establish their brand while there remain few black-owned companies with the capital to compete. Billboard campaigns in particular convey the imagery of egalitarian multiracial bonhomie which exists more in the minds of advertising agency creative departments than on the street, beach or bar terrace which form their backdrops.

At the same time, though, some companies have pursued particular strategies to boost demand among blacks. CNA Gallo, which runs a chain of newsagent/stationers as well as cinemas and a record label, has become the largest seller of postage stamps apart from the Post Office itself. This is not because that business is itself lucrative – rather, it gets blacks coming into its stores, previously an apparent preserve of white reading matter.

Malbak, an industrial group which has interests in food, pharmaceuticals, packaging, furniture and appliances, has examined each of these sectors to see where potential black demand offers scope for expansion. For example, it is placing emphasis on the supply of generic drugs which are cheaper than their proprietary equivalents – the Unisa survey shows urban black households allocate as much as 20.7 per cent of their spending to medical and dental needs.

Mr Grant Thomas, chairman of Malbak, argues: "If you look at the new South Africa, where will the money be spent? Housing, health, transport, education. If you build a house it will have at least one plug. Then look at what they want: lights, TV, fridge, cooker." Beyond that, the family would be likely to buy packaged foods once they have a refrigerator, thus neatly covering two more of Malbak's bases.

With demand for household durables such as fridges at near-saturation among whites, the source of growth for electrical goods manufacturers and retailers is clear. Rapid urbanisation following the abolition of the restrictive pass laws in the 1980s has brought around half South Africa's black population to the cities.

As electrification of the townships progresses, and some residents trade up into previously white inner-city areas, black spending should help fuel a consumer-led recovery if one takes off. Baring Securities estimates that overall private consumption expenditure, which has begun to revive this year, will grow by 2 per cent in 1994 and add a percentage point each year through 1996.

Gordon Cramb and Philip Gawith

DEVELOPMENT

Expectations may be too great

SOWETO-ON-SEA, one settlement has been dubbed. Families living in shacks in a river flood plain in the Eastern Cape city of Port Elizabeth are being moved there en masse. But this is not the dawn bulldozer raid of the old South Africa – the squatters are going, voluntarily, to set up home on a plot of land which each will own.

Another shanty town, in Welkom in the Orange Free State, is relocating to a new settlement nearby which they have called Vukuzenzela – in translation, "Wake up and do it yourself."

The name is apposite, because the squatters are not being rehoused. What they get is a "serviced site," with at least water and sewerage laid on. The building work is up to them. The two are among the 100-plus such projects around the country undertaken by the Cape Town-based Independent Development Trust since it was launched in 1990 with the political endorsement of the African National Congress and Inkatha and R2bn of government money. Further project funds have since come from other donors such as the European Community.

The IDT has spent some R850m establishing more than 110,000 sites, in the process becoming the biggest provider of new homes without ever having built a house. The number represents nearly 10 per cent of the 1.2m households it estimated had no proper roof over their heads, no mean feat in three years. But that figure is rising as blacks gravitate towards the cities to seek elusive employment, and the trust's "toilet towns" – that is their sole fitting – are barely holding the line.

Some 10m people are without drinking water at home, 15m lack sanitation, and 23m have no electricity. The IDT estimates that the country is short of 50,000 classrooms, a number which it expects to double by 2000. Some 1,000 more primary health facilities are needed.

Redressing this legacy will be a daunting task.

Eskom, the state-controlled electric utility, for example has a five-year programme to electrify 1m households, and new connections are running at 25,000 to 30,000 a month. However, this still leaves some 30 per cent of homes without power by 2000, beyond the five-year life of next year's transitional administration.

Mr Derek Keys, finance minister and former head of mining house Gencor, says bluntly of the country's social infrastructure needs: "I don't think the market is going to do it."

His downbeat view echoes that of many in the private sector who insist that institutions with the financial clout which could make a tangible difference, notably the life assurance offices, have a fiduciary duty to their shareholders or policyholders which would not allow them to justify investing in or lending to ventures where the risks are large and the returns uncertain.

But the market is at least trying. Mr Steven de Bruyn, assistant general manager of UAL, the merchant banking arm of the Nedbank group, says ways need to be found to make the risk palatable. These would often require government involvement, say in setting up a US-style mortgage guarantee fund so home loans could be extended to those without the financial track record which usually only whites can meet. Such a loan book could then be securitised.

This is not too far a jump from the capital markets issue which UAL this year put together for Eskom, the state electricity supplier, to fund its electrification programme aimed mainly at black residential areas. The R590m first tranche was fully subscribed locally after the Reserve Bank deemed the detachable warrants on the bonds allowed foreigners too much scope to exploit the country's dual exchange rate system.

Preventing defaults on mortgages may be less easy, but at least there is supposed to be an income stream to repay an investment outlay. What of education and health, where no such evident return exists? Even here, schemes are being examined. In tertiary education, for instance, a loan fund has been mooted along the lines of a model being explored in Australia. Borrowings would be repaid from students' eventual earnings, debited directly, and the fund would become self-sustainable as these flows gain pace.

Outside agencies will now play a greater role. The World Bank and International Monetary Fund themselves arouse both hopes and fears, given the stringency of their prescriptions in the rest of Africa. A letter of intent between South Africa and the IMF is ready for signing next month (but loans from the Washington institutions are in the main thought likely to be used initially to refinance existing bank borrowings rather than provide a slew of new development cash.

In a recognition of the scale of the task, Derek Keys says large-scale community upliftment "needs an entrepreneur – maybe it needs 10,000 entrepreneurs – to organise. I hope a representative government is in a better position for that than our government."

Gordon Cramb

Philip Gawith looks at the financial rand, the investor's torment

Disliked but 'still necessary'

NEXT TO violence, political instability and concerns about ANC economic policy, what investors like least about South Africa is exchange control. In fact, outside of a few lawyers and tax advisers, it is difficult to find anyone who likes it. Even the Reserve Bank, which administers the policies, never tires of saying that it would like to rid the country of this albatross.

Earlier this month Dr Chris Stals, governor of the Reserve Bank, commented: "An early end to the dual-currency system is not in the offing." He also noted, that "the financial rand will remain as long as the domestic political and social instability ... continues".

With South Africa facing an election on April 27, 1994, and the immediate aftermath a great unknown, few believe the financial rand will go before the end of 1994 at the earliest.

While most exchange control regulations are aimed at stopping people taking money out of the country, it is the dual-currency system that most affects foreign investors. In terms of this system South Africa has a commercial rand, the official rate of exchange used for all normal commercial activities; and the financial rand which is basically a currency for non-resident investment or disinvestment.

The aim of the financial rand is to protect the country's foreign reserves. The system is designed to ensure that when foreigners repatriate their investments, they do not do so at the expense of the country's reserves.

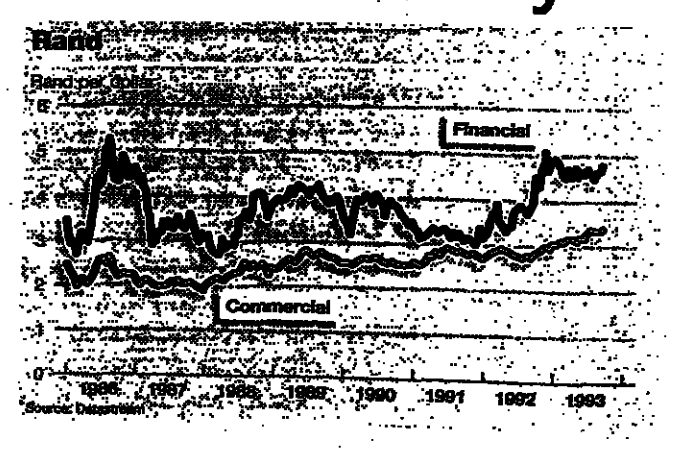
Foreign investors need to pay close attention to the financial rand as it is a highly volatile currency easily capable of negating any gains made in, say, an investment in equities or bonds. Indeed, many foreigners suffered heavy losses in the second half of 1992 when the currency weakened dramatically. Although turnover in the market has increased, it remains a very thin market, skittish and difficult to predict, and easily moved by a large order.

Financial rands are created when a non-resident sells his South African investment to a South African. He must be paid in rand, which rands are then deposited in his account with an approved dealer in foreign exchange (all of the main banks). Once in his account, the rand becomes financial rand which can only be sold by the non-resident owner to another non-resident against payment in a foreign currency.

By definition, residents can never own, and hence sell, financial rand (though, in very limited circumstances, locals may use financial rand for offshore transactions). Residents are also not allowed to buy financial rand as this would require foreign exchange – precisely what the system is supposed to avoid.

In considering when the financial rand might be abolished, it must be remembered that this subject is inextricably bound up with South Africa's debt standstill arrangements. These were introduced in 1985 and covered the country's repayable foreign debt (then $13.6bn, now down to $5bn in terms of a final agreement reached last September).

The government's position was that it would have been unfair if a restriction had been placed on repayment of foreign debt at that time without also restricting the repatriation of foreign investment in South



African equities. This would have led to undesirable arbitrage transactions – hence the introduction of the financial rand.

Likewise, it is most unlikely that the Reserve Bank will scrap the financial rand system while foreign creditors remain subject to a debt repayment scheme. The latest scheme is due to run for eight years. For South Africa to consider ending it before then – that is, repaying the affected debt – will either require that it manages to roll over a substantial amount of the $5bn still subject to the scheme, or that its reserves grow to the position where it feels they can withstand a sizeable capital outflow. Current levels, which cover only about six weeks of imports, are a long way short of the required level.

The best indicator that the financial rand is ripe for abolition will be when the discount to commercial rand, currently about 20 per cent, either narrows considerably or disappears altogether. This is unlikely before South Africa is seen to have achieved a stable and sustainable transition.

Philip Gawith

SOUTH AFRICA: OPEN FOR INVESTMENT

THE VIEW FROM ABROAD

INTERNATIONAL CAPITAL MARKETS

Playing hard to get

NOW that the sanctions have been lifted and agreement has been reached on its repayment of the $5bn of foreign debt caught in the 1985 standstill, only the elections in April stand in the way of South Africa's return to the international capital markets.

However, since it has been shunned by the international investment community for so long, South Africa is playing hard to get with the numerous banks that have come courting.

Although the gold and foreign exchange reserves have fallen, there is no urgent need for South Africa to raise funds internationally. An $850m loan facility from the International Monetary Fund (IMF) should be forthcoming by the end of the year and South Africa also has access to short-term credit lines from several banks.

Nevertheless, bankers expect South Africa to launch its first international bond issue since January 1992 after the elections.

South Africa is likely to test the waters with a Eurobond issue denominated in D-Marks. If the D-Mark Eurobond issue is successful, South Africa will then consider an offering in the higher-profile eurodollar sector. Offerings from parastatal issuers are likely to follow.

The main bone of contention is the interest rate South Africa would have to pay to raise funds in the Eurobond market. Borrowers who want to raise funds in the Eurobond market have to pay a "spread" or premium over the yield in the domestic government bond market. The size of the yield spread is determined by the market's perception of the borrower. The bigger the spread, the riskier the borrower.

Bankers say that as long as South Africa is classified as an emerging market it will have to pay a yield spread of between 225 and 275 basis points over underlying government bonds. This is well above the yield spread of around 175 basis points which South Africa is prepared to pay.

As a result, South Africa could refrain from coming to the international bond market until the pricing issue has been resolved.

Antonia Sharpe

UNITED STATES

Ready but not yet willing

SOUTH AFRICA'S constitutional agreement will intensify US corporate and investor interest, but few American companies seem likely to move quickly into the Republic.

Mr Jonathan Huneke, investment policy manager at the US Council for International Business, which represents some 300 multinationals, thinks they will re-enter "very cautiously, very quietly and very slowly".

More than 200 US companies left South Africa in the 1980s, under pressure from state and local government economic sanctions, which will take time to be lifted.

With a constitutional agreement in prospect, many US companies have been examining options in South Africa. Mr Tony O'Reilly, head of foods group H.J. Heinz, travelled to the country two years ago on an initial exploratory trip.

A few companies have already taken the plunge. The Investor Responsibility Research Center, a Washington-based monitoring group, reckons that at least 28 companies have gone into the Republic since mid-1991.

Large Wall Street brokerage houses and fund management groups, which stopped handling South African securities in the 1980s are also preparing to get back into the market.

Yet despite this surge of interest, most American corporations remain wary of a significant exposure.

There remains a lingering distrust of the African National Congress, and there is concern about the stability of the country after next year's elections.

Analysts say these worries mean that many US companies will re-enter the market through cautious routes – such as exports, joint ventures and licensing agreements – and many will seek partners in the black community.

The same concerns mean that large US fund managers, who have been snapping up stocks in so-called "emerging markets" in Latin America and Asia, may be leery of rushing into South African securities.

Martin Dickson

JAPAN

Still in courtship phase

ALTHOUGH Japan has long been a significant trading partner for South Africa the strength of that relationship has not been matched by high levels of investment.

"There is an awareness that South Africa is a promising market," says Mr Sota Sakai, manager of the Middle East and Africa Section at Marubeni, the trading house. "But when it comes to investment, this is like a marriage so it will take more time to reach that point," he notes.

While Japan was South Africa's fourth largest trading partner in 1990 after West Germany, Great Britain and the US, due to international sanctions there has been no Japanese direct investment in South Africa for at least the past 10 years, the ministry of finance says.

The political situation is still a strong concern. The Japan Bond Research Institute, gave South Africa a 5.9 general rating in its latest July report, which was up from 5.4 in January and 4.0 in January, 1989. The Institute attributed the higher ranking to the positive aspects of the government's fiscal and monetary policies as well as enhanced international trust in South Africa.

Geography is also a problem. "Japan is not that internationalised yet," explains Mr Sakai.

Japanese businesses also believe that the entire business environment in South Africa needs to be improved before the country can expect to see a significant influx of investment from Japan.

Greater communication between the two countries is also necessary before Japanese businesses are likely to feel comfortable with the idea of investing in South Africa. For much the same reasons, there is little interest in Japan in South Africa's capital markets.

Meanwhile, the activities of Japanese banks with regard to South Africa have been frozen since the country declared a debt standstill in 1985. It is believed that no new lending will be forthcoming from banks, Japanese or other, until that situation is resolved.

Michiyo Nakamoto

GERMANY

A game of wait and see

GERMAN businessmen are well aware of the potential of the South African market – but they are also acutely conscious of the risks.

The attractions lie in the country's well developed industrial infrastructure, a cheap labour force and the market of 125m consumers in southern Africa. The downside is equally obvious and can be summed up in one word: instability.

"German companies will invest," commented a German diplomat in South Africa earlier this year at a trade fair to promote trade between the two countries, "but only when the framework is in place: that means stability, a market economy and the removal of the danger of nationalisation."

As the BDI, the Federal Association of German Industry, put it in a memorandum last month, the next government in South Africa will face massive challenges in restoring the country's economy.

That government may indeed find itself on a collision course with the expectations of the black majority.

For the moment German companies have less risky, highly attractive markets on their own doorsteps, in the countries of the former eastern block. China and other markets in the far east are growing so quickly that they form a central part of many Germany companies' medium-term expansion plans.

That said, German investment in South Africa should not be underestimated: there are about 350 German businesses or subsidiaries of large German companies in the country, employing 50,000 people.

German investors and tradepartners are well-liked in South Africa – not least because German companies adopted a pragmatic approach to sanctions.

But that liking is unlikely to be reciprocated further until South Africa offers a degree of stability to investors.

David Waller

FRANCE

A dip in uncertain waters

A DELEGATION from the French employers federation was in South Africa last week to restore the country's position in South Africa's economy.

The political turmoil and violence of recent years, coupled with strong French government backing for international sanctions against apartheid, had the effect of reducing France's share in foreign direct investment in South Africa from 8.6 per cent in 1980 to around 2 per cent today.

Recent negotiation between South Africa and France of treaties on reciprocal protection of investment and avoidance of double taxation should encourage more French companies to dip their toes in South African waters.

It is to help smaller French companies in the South Africa market that the French Patronat employers federation and the Industrial Development Corporation of South Africa last year set up a joint organisation, aimed at modernising South African industry and developing higher value-added exports by South Africa.

There has long been a traditional French interest in South African gold stocks. Several South African gold stocks are quoted on the Paris Bourse and, for example, a majority of the shares in East Rand Proprietary Mines (ERPM) are held by French individuals, according to one French banker.

"But this traditional interest in gold has not spread to other South African shares," the banker says. The latter are relatively expensive, with a high price/earnings ratio, he says. This is due to the controls on capital movements which mean that South African investors have difficulty investing abroad.

But the French investor's main worry says Mr Christian Graeff, leader of last week's Patronat delegation, is "the current image of violence and the prospect that there will be no coherence in policy for some time to come".

David Buchan

Foreign trading on the JSE equities market (Rm)

	1988	1989	1990	1991	1992	1993*
Purchases	2,570	8,492	10,471	6,644	4,808	8,606
Sales	2,309	5,116	5,999	2,544	4,801	6,636
Net purchases	61	3,382	4,472	4,100	7	1,970

* Up to October 31 — Source: Johannesburg Stock Exchange

JOHANNESBURG STOCK EXCHANGE

A quantum leap

BACK in 1986 when sanctions began in earnest, the US sold and Europe bought. Now, at least as far as the Johannesburg Stock Exchange (JSE) is concerned, the positions are reversed. Europe is cautious, the US euphoric.

Down on Diagonal Street, home of the JSE, brokers groan pleasurably at the stampede of US investors knocking on their door – a veritable Wall Street who's who. Of course, the US presence on the JSE has already been highly visible in 1993, being largely responsible for driving the bull markets in bonds and gold shares. But since ANC president Nelson Mandela called for the lifting of economic sanctions in September, interest has soared. Once limited to speculators, hedge funds and specialists, especially on the gold board, the heavy artillery is massing just over the brow.

It will be some time yet before the debris of US state and municipal sanctions is finally cleared, and fund managers who are responsible to trustees will keep a watchful eye on political developments before making any significant decisions. The view on Diagonal Street, however, is that it is now a question of when, rather than if, funds flow. A broker comments: "If you aggregate the figures we've heard, there'll be a lot of sheep trying to get through a very narrow gate." One Hong Kong fund manager visitingJohannesburg said he was convinced investors would drive the price/earnings ratio of the JSE from 15 to 25, as they have with other emerging markets.

As JSE-watchers point out, it is hardly a typical emerging market – more than 100 years old and with a market capitalisation of about $145bn (at the financial rand exchange rate of R4.30/$1), it is one of the 10 largest in the world. There are about 80 stocks with a market capitalisation of more than $200m, the cut-off point often used by international fund managers to identify stocks they are prepared to hold. Hence the preference among analysts for describing the JSE as a "re-emerging" market.

Two caveats need to be entered about the bull scenario for the JSE. First, if the main international stock markets crack, the Dow Jones industrial index in particular, then the JSE is sure to follow. Second, South Africa must achieve a relatively stable political transition.

South Africa: Comparable equity markets*

Country	Market cap (US$bn)	Turnover (% of mkt cap traded)
Hong Kong	231	23
South Africa	189	4
Australia	153	19
Brazil	144	11
Mexico	130	15
Taiwan	121	155
Korea	119	91
Malaysia	111	36
Thailand	62	39
Singapore	60	38
Chile	34	3
Argentina	27	19
New Zealand	18	11

* Markets ranked by market capitalisation, 1993 data. Source: S G Warburg Securities

Assuming these hurdles are cleared, then the case for the JSE is easily developed. US investors and fund managers are looking to invest an increasing portion of their assets outside the US to improve returns. Given the JSE accounts for about 0.9 per cent of total world stock market capitalisation, and most US fund managers hold little if any SA stock, it is reasonable to assume a flow of funds. Until recently, virtually no US analysts followed South African stocks. As they start to cover them, so funds are likely to follow.

A recent study of 47 global emerging market funds (mostly UK and US) by the UK group Micropal shows that as at June 30, 1993, only 0.07 per cent of their $8bn assets were invested in South Africa. This process will gather impetus when Morgan Stanley develops a South Africa index for inclusion in its world index, and should the International Finance Corporation grant the JSE emerging market status. (SA stocks qualify because domestic per capita income is below the $7,910 cut-off).

The case for the JSE is considerably hardened by fairly reliable talk of six to seven South (or southern) Africa country funds being established. Alliance Capital Management Corporation, one of the largest investment management funds in the US with about $110bn of funds under management, and backed by Merrill Lynch, has already lodged a prospectus with the US Securities and Exchange Commission to launch The Southern Africa Fund – a closed end investment company. These funds could easily raise $500m. $500m

The chief concern about any large inflow of funds is whether the JSE, with its notoriously poor tradeability, can manage them. Latest JSE figures show annualised liquidity at about 7 per cent, but in recent years this has been closer to 4 per cent. Figures from Johannesburg brokers Ivor Jones, Roy & Co show the most liquid domestic industrial stock, SA Breweries, has a monthly turnover of only $12m. The most liquid stock, by a long margin, is De Beers, with a monthly turnover of about $57m. The main cause of the low liquidity is exchange control. South Africa's large institutional cash flows – about R40bn per annum, of which at least a quarter will make its way into equities – are forced to chase a small pool of domestic quality scrip. Understandably, the good stock they get they are inclined to hold. If strong buying pressures do materialise, then the upward trend of prices will help loosen stock. The yield-driven, short-term focus of some of the speculative funds already in the JSE will make it more volatile, and also boost liquidity.

South African bonds will also attract attention. Real yields on long bonds of around 8 per cent for foreign investors compare favourably with the returns available in industrial countries. South Africa is a good risk not to default, the market is well organised and liquid, with more than $1bn daily trading volume common, the bonds offer prospective capital gains from the fall in inflation, and there is the possibility of currency gains from the appreciation of the financial rand.

Investments on the JSE are done through the volatile financial rand, whose movements are capable of wiping out gains in the underlying investments. For investors coming into the bond market in particular, where volumes are quite large, they have to buy the currency before the bond. As one broker commented: "The currency leg is the narrow gate, not the bond." Political stability will help stabilise this market, but investors should treat it with caution.

Philip Gawith

STOCK MARKET STRUCTURE

Unthinkable achieved

"YES, the PAC needs some good investment advice," said a senior cadre of the most militant grouping involved in South Africa's multi-party democracy process as he shook hands with a broker last week in the Johannesburg Stock Exchange (JSE) building.

The meeting, unthinkable three years ago, may suggest to some that the Pan Africanist Congress is mellowing. It could also be read merely as a sign of how politicised everything in South African commerce has become. Arguably it always was: investors prospered under apartheid and a claim by the JSE, in a booklet aimed at blacks, that its record is "one hundred years of creating wealth for all South Africans" will be found by many to be tendentious.

But stockbroking firms, in a business as divorced as is conceivable from the daily realities of most people, now eagerly court all the main black movements in the hope that they will be smiled on after next April.

The very structure and operation of the JSE threatens to develop into a political issue. Indeed, if it does, this will at least in part have been at the instigation of the exchange itself, which set up a sub-committee 18 months ago to examine its workings "on the basis that South Africa is going through changes," says Mr Roy Andersen, JSE president.

The sub-committee was charged with examining the market's old-style system of individually liable brokers, trading on fixed commissions and only on their clients' behalf rather than also on their own account. Its report is in its final stages and due in February. Most local brokers think Johannesburg will not have a Big Bang – but there may be a "phased phut" in which many of the market's traditional practices will be overturned and new entrants allowed in.

The problem for an administration headed by the African National Congress will be that most of these would-be entrants are the country's big banking groups, which have extensive equity links in industry and other financial sectors. Should a transitional government sanction a further concentration of economic power, which leading ANC members have long wished to diffuse, or should it give its blessing to what others will call a cosy club of vested interests?

There are further questions. If banks, brokers, insurers and industrial companies are allowed all to come under one corporate roof, in a small financial community what prospect is there that Chinese walls will be impermeable? And if black workers are to be given a stake in their employment future, say through share option schemes as a means of promoting productivity gains, how will it look if dealing costs for small investors suddenly rise relative to those of the big financial houses?

Though Mr Andersen is coy about the contents of the report, leading stockbrokers think some sort of change is inevitable. The best guesses circulating in broking firms' offices above the Diagonal Street trading floor are that the JSE will at least initially remain an agency market but that a sliding scale will replace the 0.5 per cent standard commission – becoming freely negotiable for trades over a certain size – and that firms will be able to sell a stake of perhaps 30 per cent to a corporate shareholder.

Suggestions that the banks, if dissatisfied with the pace of change, might set up a screen-based dealing system for the biggest and most liquid stocks are largely discounted on regulatory grounds. But it is a stick which has at least been waved in the distance, and the JSE is believed ready to open up a gap or two in the laager of its trading floor to ease pressure.

Changes are likely to come gradually, starting next year, and the mood will not be one of the Eighties London bonanza. Although a large number of the 50-odd brokers will sell out to banks, the lesson has been learned from the fancy price/earnings ratios paid to City firms before the 1987 crash, says a partner in one Johannesburg securities house. He adds: "Those with the means or the products can survive" – as independent entities if they wish.

This also appears to be the wish of many of the country's fund managers. They are by no means convinced that, in a thinly traded equity market, commissions on buying good lines of stock would fall – even for them. At the same time, they are concerned that any squeeze on brokers' margins might force JSE member firms to cut research output which they commonly use in tandem with in-house analysis. And they see their choice of broker potentially narrowed because some would have tied up with a rival financial institution.

"We want quality of service – in dealing skills and research input – and we are more inclined to accept higher commissions to get it," says one.

Whatever the outcome, as free elections approach and the country's reconstruction needs are thrown more to the fore, black political groups are setting aside their old hostility to the exchange as an institution. While they are likely to have much to say in the coming year about how the JSE should conduct itself to the benefit of all South Africans, even the PAC's slogan seems to be changing slowly from the notorious "One settler, one bullet" to something which may be more like "One settlement, one bull market".

Gordon Cramb

Tony Hawkins looks at the industrial potential

Continental launchpad

SOUTH AFRICA'S return to legitimacy coincides with the growing regionalisation of foreign investment decisions. As multinationals rationalise and integrate their foreign operations to secure scale economies and improve co-ordination, so they are looking more carefully at regional, rather than national, markets. Invariably this means consolidating operations at one, or a few, locations to serve a regional market, especially where trade flows are being liberalised.

By any yardstick, South Africa is the logical launchpad for penetrating the sub-Saharan market, worth some $250bn, of which South Africa itself accounts for more than $100bn or more than 40 per cent. The South African market, although small by global standards, is the only African market large enough to justify a broad range of manufacturing activities. The next largest is Nigeria, worth $34bn and set to shrink in foreign currency with devaluation next year.

While few companies have yet rationalised their operations with the establishment of regional headquarters in South Africa, this is likely to be a pervasive trend, once the violence subsides and business confidence returns. BP is one company that will establish a regional headquarters in South Africa, while a number of manufacturing companies, such as Nissan, are known to be actively considering developing their South African factories as the platform for exporting into the region.

The reasons are obvious; South Africa has the best infrastructure on the continent with first-world service industry back-up in banking, insurance, capital markets, hotels and information technology. It has spare capacity in energy and transport, a vast pool of unskilled labour, a rich natural resource base, a better skills endowment than anywhere else in Africa – though way behind Asian levels – and a large enough domestic market to justify most industrial investments. By African standards the environment is investor-friendly and there are few African locations that can match South Africa's quality of life.

South Africa is the only African market large enough to justify a broad range of manufacturing

The disadvantages are essentially socio-political – political and criminal violence, allied with the worry that, even if they are papered over in 1993/4, ethnic tensions will re-surface later in the decade. Labour relations are also a possible reason for steering clear of South Africa given the high cost of labour relative to that elsewhere in the region and far higher levels of unionisation. Against that is the relentless decline in the relative importance of direct labour costs in most business activities, with raw materials, capital and transport costs assuming far greater significance. These costs are likely to be lower in South Africa than elsewhere in sub-Saharan Africa.

International business is likely to adopt one of two main strategies for serving the African market in the 1990s:

■ It will export into the region from offshore using agents, licensees or franchisees as a vehicle; or

■ It will use South Africa as the mode of entry, manufacturing or assembling in the country primarily for domestic consumption while exporting residual amounts to the region.

Clearly, neither strategy will work if African countries maintain tariffs and other barriers against imports. But with the march of economic reform, regional economies are being liberalised, thereby encouraging foreign firms to sell into the usually-tiny markets from outside rather than setting up shop behind high tariff barriers as was the pattern in the 1950s and 60s.

There are two polar views of how trade and investment flows will evolve in Southern Africa. On the one hand, the locomotive theory holds that South Africa will become the region's economic dynamo that helps turn the sub-Saharan economy around.

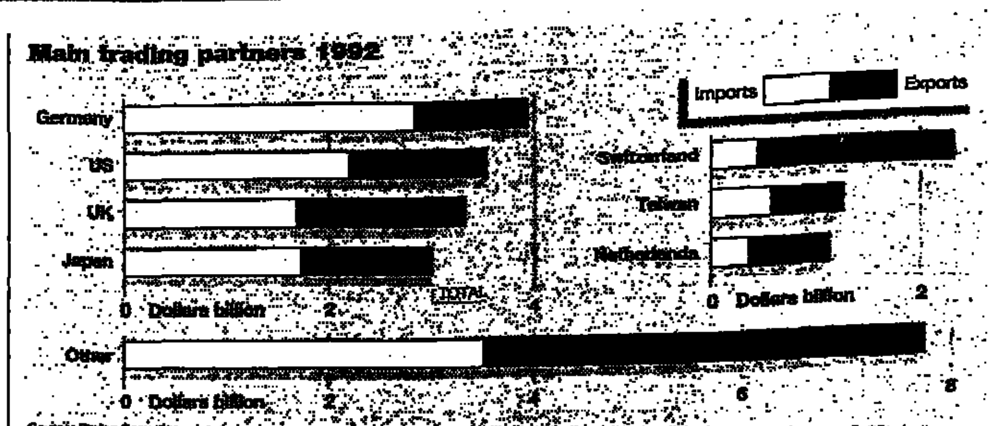
By African standards the environment is investor-friendly and the quality of life is excellent

The alternative school holds that South Africa, certainly for the immediate future, has more than enough on its domestic plate to make much of a contribution to the regional turnround. Indeed, there are even those in Botswana, Namibia, Zambia and Zimbabwe who predict that relocation will, in fact, go the other way, with firms emigrating from South Africa to escape political violence and industrial relations unrest, and exploiting more tranquil labour market conditions – and lower costs – elsewhere.

This is an unlikely scenario given the growing tendency for manufacturers to locate as close as possible to their main markets. The more likely scenario is one in which South Africa becomes the platform for exploiting market opportunities in east, central and southern Africa. South African business is well placed, too, to participate in rebuilding the region's physical infrastructure, on which massive amounts – much of it aid money – will be spent. South Africa aside, there is little indigenous capacity in the region to handle major physical infrastructural projects.

South African businesses will have the edge, too, in some African privatisation programmes – their investment banks and mining houses are already active in countries such as Mozambique and Zambia where privatisation moves are gathering speed.

African leaders will be perturbed less at the prospect of growing South African participation in their economies, than with the potentially one-way traffic that this implies. Few countries in the region have much to sell to Pretoria other than raw materials (oil, copper, coffee, cocoa, tobacco) and tourism. The saving grace – though this will depend on close links with multinationals, often with regional headquarters in South Africa – could be the development of sub-contracting and components manufacture for final assembly in the south. This would turn launchpad South Africa into a positive sum game in which there are winners all round.



Source: Baring Securities

Philip Gawith discusses foreign investment

In search of recognition

AFTER the isolation years, South Africa's business community is enjoying being back in the fold, hoping the world will want to lend to the country, trade with it and, above all, invest in it. First prize would be a headline investment of the "IBM to build $1bn plant" variety.

Clearly the optimists are going to be disappointed, for the time being. First, the world has changed. Before isolation, the eastern bloc and China were no-go zones and the Pacific Dragons had barely entered the business lexicon. Nor had South America embarked upon widespread financial liberalisation. Change in all of these areas has opened a host of markets competing for the multinational investment dollar.

Second, save for special cases – such as investment flowing from the recent issue of cellular telephone licences – it is unlikely any significant investments will be made until it is clear South Africa has achieved a stable transition.

This is not, however, to say that nothing is happening. On the contrary, there is a ferment of activity. Examples include: Alfa Romeo is again selling cars in South Africa and Volvo will soon be doing so: IBM is probably going to return through an investment in a local distributor; Hoechst has expanded its operation by paying R70m for a polyester fibre plant; Foodcorp has signed a deal with Pillsbury; Lufthansa has added an extra flight and is flying on a daily basis; ferro-chrome producers Samancor and Nippon Denko have formed a joint venture, while Mitsui will distribute some of Sasol's chemicals in Japan and Korea. The list goes on.

So, while the headline investment may be absent, the incremental internationalisation of the corporate scene is proceeding apace. The main trend to be observed is as obvious as it is understandable: companies want to establish a presence, but without any significant equity commitment. As Dr Chris Stals, governor of the Reserve Bank, commented recently in Washington: "They're offering us their services, not their money." The deals one is hearing about are thus in distribution, licensing and franchising.

At issue here is not only the question of who will come, but how they will do it. Any future government is sure to have a very strong commitment to black economic advancement, a process that many US investors, in particular, are likely to want to support. Given the underdeveloped state of black business in South Africa, franchising (sectors with strong potential include hair care salons and fast food outlets) and joint ventures are the most logical routes of assisting this process. There are, for example, many small black business contractors, but often they will lack access to credit to buy materials and have non-existent financial or administative systems.

The process of finding partners, however, will not be easy. Despite years of activity in this field, the US embassy is still not in a position to offer a list of potential partners.

According to the Reserve Bank, at the end of 1992 total investment in South Africa by foreign residents amounted to approximately $30bn. This included repayable debt of about $18bn and about $12bn of South African corporate equities and bonds issued by government and other public and private sector borrowers. About half of the latter sum is "direct" investment – in South African subsidiaries and branches of foreign companies – with the other half being invested by non-residents in rand denominated paper ("portfolio" investment).

During the sanctions years, South Africa experienced a net outflow of foreign investment from the country as many companies, especially US ones, disinvested. The stock of US fixed investment in South Africa shrunk as a result by a third, to roughly $1bn and 110 companies. Although some UK and European companies also left, most stayed and already have a presence in South Africa. From an investment perspective, the Japanese and Asian presence is negligible.

Mr Derek Keys, finance minister, speculates that the order in which foreign countries will "carry the baton" when they return might be: US, Japan, UK and other Europeans. How will they be received by a future government? The key policy document in this regard is the "Agreed framework in relation to foreign direct investment", a product of the National Economic Forum, and endorsed by the ANC. This is largely a motherhood-and-apple pie affair, but points worth stressing are:

■ Realisation of the importance of stability and "consistent, credible economic policies";

■ The view that South Africa should not introduce special tax incentives to attract FDI, the object rather being "the equal application of reasonably low corporate tax rates which remain stable";

■ During the transition assurances will be provided on security of investment, foreign exchange policy, and minimisation of bureaucratic obstacles;

■ Industrial incentives will be equally available to foreigners and locals.

TOURISM

Playground for visitors

ONE industry where South Africa seems certain to develop a competitive advantage is leisure. Even under sanctions and with high levels of violence and political uncertainty, it is the continent's second largest tourist industry, accounting for almost 20 per cent of regional tourist income, more than double Kenya's 9.6 per cent. In 1991, Morocco headed the African league with 24 per cent of tourist revenue.

Globally, South Africa is a tiny player accounting for less than 0.25 per cent of the international tourist business. Excluding African visitors, there were some 560,000 tourist arrivals last year, the bulk of whom (70 per cent) came from Europe, with the UK as the main market (26 per cent) followed by Germany (16 per cent) and the US (9 per cent). With a growth rate of 18.5 per cent in 1992, the Asian market – especially Taiwan (4 per cent) and Japan (1.5 per cent) – is becoming increasingly important. Growth accelerated in the first seven months of 1993 with the number of arrivals increasing 12.7 per cent.

Overseas tourists spend an estimated R4,800 ($1,750) per visit (excluding air fares to and from the country) and the industry earned R2.75bn ($1bn) in foreign exchange in 1991, making it the fourth largest foreign currency earner, after manufactures, gold and other minerals.

Aside from the lifting of sanctions, the main factor making for tourism growth at a time of global recession has been the liberalisation of the aviation policies and the expansion of air traffic capacity. In the past three years, 18 new airlines have started services to South Africa.

A more market-driven aviation policy has resulted in more competitive market prices and the opening up of the charter market. The number of tour operators has more than doubled, while government has become more active in tourism promotion allowing accelerated tax write-offs for the accommodation industry, a R600m ($180m) loan programme for Eco-tourism projects and support schemes for small entrepreneurs.

On the debit side, tourist perceptions of personal safety in South Africa have deteriorated markedly. In January 1990, some 70 per cent of overseas visitors rated the safety factor in South Africa good but by January this year, this rating had fallen below 30 per cent.

The government's target is to more than treble the number of arrivals by 2000 reaching 1.75m visitors earning some R24bn in foreign exchange. With hotels operating at below 50 per cent of bed-night capacity, there is considerable scope for expansion without significant new investment in hotels.

Nevertheless, three leading global players – Hilton, Hyatt and Sheraton – have expressed interest in opening up in South Africa.

Tony Hawkins

the very least Russia is likely to need World Bank help if it is to proceed.

In the Ukraine, unable and

Mr Rémy Carle, the WANO governing board and deputy general manager of Electricité de France, told the

fuels and other factors over which the nuclear industry has little control.

LONDON STOCK EXCHANGE

Inflation news boosts base rate hopes

By Terry Byland,
UK Stock Market Editor

AN UNEXPECTEDLY large fall in domestic inflation in October gave a significant *boost to* base rate optimism in the UK stock market yesterday. The FT-SE 100 Index moved strongly ahead, brushing off unimpressive UK retail sales progress, leaving the market to face its next hurdle this morning when it must respond to the outcome of the Nafta vote in the US Congress.

A nervous start on Wall Street left London to close off the day's best levels, with the FT-SE Index finally 22.5 up at 3,120. Reports that a leading US investment bank had sharply downgraded its ratings on the Hong Kong stock market also upset London.

The news that domestic inflation had fallen to an annualised 1.4 per cent in October, from 1.8 per cent in the previous month, contrasted with market *expectations that the* rate would be either unchanged or even slightly higher.

A base rate cut of at least half a point – several analysts are going for a full point *reduction* – moved right to the top of the stock market agenda following the inflation announcement. Led by a strong premium on the December stock index future, shares jumped sharply and took the Footsie to a day's high of 3,126.1. The peak was held until Wall Street opened up sharply lower before steadying during UK trading hours.

Interest rate optimism *had* already been encouraged by a rate cut in Belgium, although with markets closed *yesterday* in Germany, London analysts were taking a cautious view of the chances *of a move by the* Bundesbank at today's policy meeting.

The market's renewed optimism was *reflected in further* recovery in the FT-SE Mid 250 Index which gained 15.7 point *to 3,436.7.*

Seaq volume, again boosted by a large trading programme, remained *high* at 662.2m shares compared with 654.8m on Tuesday, when retail business *returned to* more *average* levels with a value total of £1.32bn.

The focus turned towards *the property shares, which* have much to gain from further cuts in domestic interest rates, and *to the bank stocks* which will see their bad debts reduced as interest rate pressures recede.

But some store shares lagged behind the market, restrained by *disappointment with the* very modest 0.1 per cenmt gain in retail sales in October – sector analysts had looked for a *rise* of *at least 0.3* per cent.

The poor retail sales number cast a shadow elsewhere in the market, since it suggests that economic recovery is still lagging. Company trading statements continued to unsettle the stock market yesterday, with Courtaulds joining the list of leading British companies to receive rough treatment on the stock market this week.

Some traders warned that the sharp rise in share prices at mid-session had brought out significant selling orders from the bears which undoubtedly continue to roam through the market.

The opening of equity trading this morning could well *present traders with a difficult* picture as they struggle to respond to factors in other global centres. Wall Street's performance in the wake of the NAFTA debate will dominate early trading in London but dealers will also be watching the Hong Kong market with some apprehension.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change
ASDA Group†	14,000	60¾	+1	Courtaulds†	9,800	432	-44	Lonrho	3,800	130½	+1	Siebe†	1,200	548	-6½
Abbey National†	4,100	412	+5	Dalgety	298	448	+9	Lucas	8,200	177	-2	Slough Ests.	2,100	256	+1
Albert Fisher	1,300	64	+4	De La Rue	521	782	+10	MEPC†	2,300	510	+12	Smith (W.H.) A	781	459	+2
Allied-Lyons†	914	661	+10	Dixons	615	277	-1	MFI	897	135		Smith & Nephew†	4,000	137½	+1
Anglian Water†	475	515	+9	Eastern Elect.	734	584	+7	Manweb	84	641	+8	SmKl Beecham†	4,400	412	+7½
Argos	202	335		East Midland Elect.	1,500	556	+2	Marks & Spencer†	2,000	411	+5	SmKl Beecham Uts.†	1,500	377	+6
Argyll Group†	4,600	271	+4½	Eng China Clays	691	419	+6	Midlands Elect.	1,000	609	+10	Smiths Inds.	1,200	434	+11
Arjo Wiggins†	312	227	+2	Enterprise Oil†	2,100	462	+6	Morrison (Wm.)	5,500	86	+2	Southern Elect.†	251	604	+6
Assoc. Brit. Foods†	283	488	+8	Eurotunnel Units	114	445		NFC†	1,400	245	+3	South Wales Elect	500	657	+17
Ass. Brit. Ports	3,000	495	+11	FKI	1,200	182½	-1	NatWest Bank†	4,400	562	+12	South West Water	335	559	+4
BAA†	3,200	928	+7	Fisons	3,100	142	-1	National Power†	4,000	405	+4½	South West. Elect.	374	582	+6
BAT Inds.†	3,100	502½	-½	Foreign & Col. I.T.	485	264	+½	Next	974	189		Southern Water	218	558	+1
BET	2,300	128	+2	Forte†	5,800	239	+5	North West Water†	812	524	+7	Standard Chartd.†	1,400	1037	+2
BICC	440	395	+9	Gen. Accident†	2,500	671	+13	Northern Elect.	186	614	+1	Storehouse	2,900	183	
BOC†	1,200	601	+5	General Elect.†	4,900	338	+2	Northern Foods†	386	229	+1	Sun Alliance†	1,500	374	+4
BP†	3,900	343½	+2	Glaxo†	5,200	658	+9	Norweb	140	634	+7½	T&N	878	194½	+1½
BPB Inds.	1,400	255		Glynwed Intl.	611	309	+1	Pearson†	1,200	581	+2	TI Group†	1,100	385	
BT†	3,200	470½	+3	Granada†	394	490	+5	P & O†	4,400	565	+23	TSB†	9,100	224	+4
BT (Pt Paid)	4,100	219½	+3	Grand Met.†	3,700	404	+8	Pilkington	1,800	149	+1	Tarmac	5,700	157	+4½
BTR†	9,300	354½	+4	GUS†	1,900	563	+6	PowerGen†	975	469½	+4½	Tate & Lyle	1,400	378	+6
Bank of Scotland†	3,800	190	+2	GRE†	1,100	206	+2	Prudential†	4,500	329	+3	Taylor Woodrow	583	118	+4
Barclays†	3,100	585	+1	GKN	1,500	483	+2	RMC†	882	839	+7	Tesco†	12,000	195½	+8½
Bass†	2,500	485	-5	Guinness†	3,800	440	+7	RTZ†	1,700	658	+6	Thames Water†	2,200	521	+4
Blue Circle†	3,700	305	+7	HSBC (75p shs)†	12,000	734	-18	Racal	145	212		Thorn EMI†	855	955	+23
Booker	68	398	+5	Hammerson 'A'	544	368		Rank Org.†	1,400	873	+17	Tomkins†	1,700	234½	+½
Boots†	3,100	525	-1	Hanson†	4,700	278	+¾	Reckitt & Colman†	1,400	661	+5	Trafalgar House	1,000	98	+½
Bowater†	1,800	437	+7	Harrisons Crosfield	4,500	183	+7	Redland†	1,400	538	+3	Unigate	1,800	355	-12
Brit. Aerospace†	2,400	431	-4	Hays	831	246	-1	Reed Intl.†	3,100	753	+5	Unilever†	1,400	1115	+5
British Airways†	3,500	407	+2	Hillsdown	1,100	147	+3	Rentokil†	3,300	206	+2	United Biscuits†	2,300	337	+8
British Gas†	10,000	328½	+7	IMI	173	292	+2	Reuters†	362	1644	+5	Utd. Newspapers	208	521	
British Land	880	418	+8	ICI†	4,400	675	-7	Rolls Royce†	8,400	165½	-1½	Vodafone†	2,300	538	-2
British Steel†	3,300	120½	+1½	Inchcape†	2,000	494	-3	Ryl Bk Scotland†	2,700	367	-3	Warburg (SG)†	439	840	+1
Bunzl	676	132	+1	Johnson Matthey	55	473	-2	Royal Insurance†	1,700	305	-1	Wellcome†	2,500	685	-4
Burmah Castrol†	124	745	+4	Kingfisher†	695	675	-1	Sainsbury†	3,400	379	+14	Welsh Water	339	630	+7
Burton	5,400	64	-½	Kwik Save	317	577	-4	Schroders†	28	1210	-5	Wessex Water	386	632	+7
Cable & Wire.†	5,400	473	-17	Ladbroke†	12,000	156	-1	Scottish & New.†	1,600	489	+2	Whitbread 'A'†	582	500	+1
Cadbury Schweppes†	1,600	467	+2	Land Securities†	1,700	734	+8	Scot. Hydro-Elect.	278	385	+3	Williams Hldgs.†	1,800	326	
Calor Group	89	293	+11	Laporte	858	665	+9	Scottish Power†	1,100	405½	+5	Willis Corroon	498	226	-1
Caradon†	1,000	332	+2	Legal & General†	289	493	+7	Sears†	4,700	119	+1	Wimpey	1,900	187	+2
Carlton Comms.†	1,700	749	+9	Lloyds Abbey	128	429		Sedgwick	465	183	+1	Wolseley†	585	713	+9
Coats Viyella†	734	284	+2	Lloyds Bank†	3,500	570	+6	Seeboard	231	633	+9	Yorkshire Elect.	793	622	+10
Comm. Union†	2,200	606	+10	LASMO	3,200	134	+1	Severn Trent Water†	1,800	525	+8	Yorkshire Water	1,000	539	+7
Cookson	1,100	208	+1	London Elect.	788	584	+10	Shell Transport†	3,000	686	+5	Zeneca†	3,200	787	+10

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

HK stocks under pressure

STOCKS WITH heavy exposure to Hong Kong suffered extremely heavy selling in a day of frantic activity generated by a significant shift in the trading position of Morgan Stanley, one of the leading US investment banks.

Morgan Stanley, which was instrumental in driving Hong Kong stocks higher in the summer, yesterday cut its recommended international equity exposure to Hong Kong from 7 per cent to 5 per cent.

Telecoms group Cable and Wireless, which generates much of its income from Hong Kong, was badly affected, the shares hitting a low of 470p before settling 17 off at 473p on turnover of 5.4m. C&W's interim figures are due this morning, with profits forecast to come in around £500m, against £378m.

Sentiment was further weakened by persistent and long running stories that the Chinese government's investment agency CITIC is poised to make a large placing in Hong Kong Telecom. C&W has a 57 per cent stake in HK Telecom, while CITIC holds a 17 per cent shareholding.

HSBC was also mauled, the shares sliding 18 to 734p on exceptionally heavy turnover of 11m. "There was a flood of selling and it looks as if there is more to come," said one trader.

Courtaulds shock

Savaging of the chemicals sector continued yesterday as disappointing figures from Courtaulds, one of the sector leaders, sent the company's shares reeling on their highest turnover for more than 4½ years. The stock dropped 44 to 432p, a level last seen more than a year ago, with 9.8m traded.

The fall followed a sharp rerating for BOC the previous day.

The headline interim profits from Courtaulds were up at £96.1m from £88.8m previously and market forecasts of around £87m. But the pre-tax figure contained an exceptional charge of £24.4m and once that was deducted the numbers were looking depressing. Furthermore, Courtaulds warned that conditions would continue difficult during the second half, traditionally the best period for the company.

Analysts brought their forecasts for the full year down to around £150m for the full year from estimates of £180m to £190m previously. Mr David Ingles of agency broker James Capel maintained faith in the company but said he saw the shares slipping to around 400p before they were worth buying again. Mr Martin Evans of securities house Hoare Govett said: "Courtaulds is dead money for the time being – its too late to sell and too early to buy."

BOC recovered 5 to 601p with Hoare maintaining its buy stance.

Strength in P&O

Reports that P&O was among a consortium intending to raise container rates on its eastern shipping routes helped the shares make big gains in useful turnover of 4m. They closed 23 ahead at 565p.

According to the reports, the consortium is to push up rates by 20 per cent, which would have a big impact on P&O's balance sheet. Last year, the group made £36m profits from its container and bulk shipping *interests. However, transport* analysts tended to be sceptical, pointing out that the consor*tium had made attempts before* to harden rates. "None of the price rises ever stick," com*mented one specialist.*

Ladbroke hit

Further downgrades in Ladbroke, including one from joint broker SG Warburg, continued the downward revision begun by Smith New Court, the other house broker, on Tuesday.

Although most leisure analysts were hinting at problems at the group's DIY business, Texas Home Care, there was consternation over the continuing downward pressure on the shares. *This* was underlined by another good performance from Forte, the hotel group's *shares* opening up their largest ever gap over Ladbroke, the two normally run*ning fairly* in parallel.

In a strong sector, Ladbroke shed a penny to 156p, the low*est level for more* than *a year,* in big turnover of 10m. Forte climbed 5 to 239p in turnover *approaching 6m. The* stock has been strong in recent sessions as talk of stronger London bookings have given hopes of improvements in room rates – news that would normally impact favourably on Ladbroke.

Analysts are expecting further details on Forte trading on a visit to France today to inspect the group's motorway service station business.

A health scare in the Netherlands sent Unigate shares down 12 to 355p. Dutch food group Verenigde Bedrivjen Nutricia, in which Unigate holds a 32.6 per cent stake, announced that it was recalling a consignment of baby food that may possibly be contaminated. As Unigate shares began to fall, hectic trading in Amsterdam led to Nutricia being temporarily suspended. One UK food analyst said the recall could cost Unigate over £1m. Last year, Nutricia contributed *15 per cent of Unigate's* £108m profits.

United Biscuits gained 8 to *337p, with Smith New Court* rumoured to be a buyer. Dalgety added 9 to 448p on news *that it is in discussions to* buy BP's pet food business.

Food retailers were the best performing sector, rallying from their recent bout of weakness. J. Sainsbury jumped 14 to 369p and Tesco 8½ to 195½p.

Property shares were again strong, lifted by results and a positive statement from Land Securities, the UK's biggest property group. Its shares, strong following a James Capel buy note earlier in the week, added 6 at 734p. MEPC advanced 12 to 510p, British Land 8 to 418p and Brixton Estates 5 to 229p.

A reversal of recent switching out of National Westminster and into Barclays saw the former's shares race up 12 to 560p on 4.1m traded, while Barclays edged up a penny to 585p on 3.1m.

A single deal in TSB, where one UK house bought and sold a block of just over 2m shares, left the shares 4 higher at 224p with overall turnover reaching a hefty 8.8m.

Pharmaceutical stocks benefited in early trade from a strong performance by the sector in New York on Tuesday night. Some gains were trimmed in the afternoon as Wall Street opened easier but Zeneca lifted 10 to 787p, Glaxo was up 9 at 658p and SmithKline Beecham gained 7½ to 412p as concerns over a possible difference opinion between Mr Bob Bauman, the chief executive, Mr Jan Leschly, the chief executive designate and current head of the pharmaceuticals division, faded away.

Commercial Union jumped 10 to 606p following the well-received third quarter figures, while General Accident, badly affected by below-par results on Tuesday, rallied 13 to 671p.

Increased prospects for a cut in UK interest rates after the latest economic data on inflation and retail sales led to a strong burst of buying in high yielding utilities stocks. In the regional electricity issues South Wales jumped 17 to 657p while Yorkshire rose 10 to 622p. Northern Ireland Electricity raced up 6½ to 199½p.

The FT-SE 100's four water stocks made excellent progress. Anglian rose 9 to 515p *and Severn Trent 8 to 525p.*

The oil and gas sector's two cold weather stocks, British *Gas and Calor Group, were the* brightest performers in a generally strong sector. Gas *moved up 7 to 328½p,* following a buy recommendation from Kleinwort Benson, who said the recent fall in the shares was overdone. The broker said Gas now yields more than three-month money and that given Kleinwort's expectation of rising production profits and further cost cutting the stock is attractive.

Gas reports third-quarter results today. Kleinwort, along with most leading brokers, forecasts a loss of £200m on a historic cost basis.

Calor Group, *always boosted* by cold snaps in UK weather, jumped 11 to 293p.

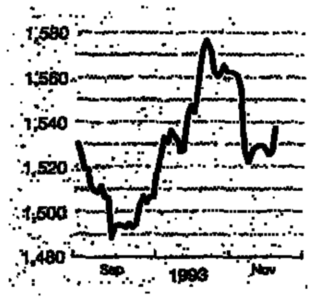
PowerGen's purchase of a 3.9 per cent in the Liverpool Bay oil and gas development from Monument Oil & Gas continued to drive Monument shares, a shade harder 56p, but also produced another good showing by Lasmo, also heavily involved in Liverpool Bay, which hardened to 134p. Enterprise made good progress, closing 9 firmer at 9 to 462p.

Recent encouraging drilling news helped Pict Petroleum add a further 4 to 158p.

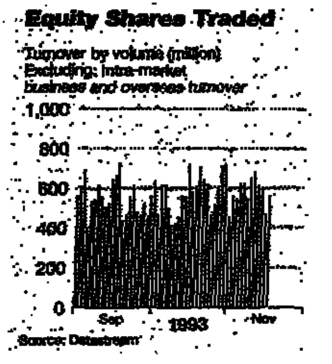
MARKET REPORTERS:
Christopher Price,
Peter John,
Steve Thompson.

■ Other statistics, Page 23

FT-A All-Share Index



Equity Shares Traded



Source: Datastream

Account Dealing Dates

***First Dealings:**		
Nov 1	Nov 15	Nov 29
Option Declarations:		
Nov 11	Nov 25	Dec 9
Last Dealings:		
Nov 12	Nov 26	Dec 10
Account Day:		
Nov 22	Dec 6	Dec 20

*New time dealings may take place from two business days earlier.

NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (121).
BRITISH FUNDS (43) OTHER FIXED INTEREST (1) African Dev. Bk. 11¼pc Ln. '10, AMERICANS (2) Lowe's, Varity, CANADIANS (2) Brascan, Hudson's Bay, BANKS (4) ANZ, Anglo Irish, Barclays, Royal Bk. of Scotland, BREWERS (1) Burtonwood, BLDG MATLS (7) Blue Circle, Kingspan, Marshalls, Marshalls 8¼pc Cnv Pf., RMC, SWP, Travis Perkins, CHEMS (2) Bayer AG, Croda Intl., CONGLOMERATES (2) Hanson, Hanson 9½pc Cnv Bd., CONTG & CONSTRCN (2) Bradon Hire, Pochins, ELECTRICITY (1) Powergen, ELECTRONICS (1) Amstrad, ENG AERO (1) Smiths Inds., ENG GEN (5) Bridon, Carclo, FKI, Renold, Sterling Inds., FOOD MANUF (1) Acatos & Hutcheson, HOTELS & LEIS (2) Rank Org., Rank Org. 8¼pc Cv Pf., INV TRUSTS (20) MEDIA (1) Flextech, MISC (1) Waterford Wedgwood, MOTORS (4) Cook (DC), General Motors, Lucas Inds. Warrants, OIL & GAS (4) Aralnea, Command Petroleum, Petrofina SA, Pict Petroleum, PAPER & PRINTG (3) De La Rue, Jarvis, Lawson Mardon, PROP (5) Daejan, Gt. Port Ests. 9½pc '02, Lon. Merchant, STORES (1) Marks & Spencer, TEXTS (2) Forminster, Yorklyde, TRANSPORT (3) BAA, British Airways Cap 9¾pc Cnv., CSX, WATER (1) Chesm, SOUTH AFRICANS (3) OK Bazaars, SA Brews, MINES (4) Angloval, Gencor, Loraine, Minorco.
NEW LOWS (28).
BRITISH FUNDS (6), CHEMS (1) Courtaulds, ENG AERO (1) FR, ENG GEN (3) Barry Wehmiller, Beverley, Weir, FOOD MANUF (2) Berisford Intl., JLI, FOOD RETAILING (3) Iceland, Kwik Save, Morrison (Wm) 5¼pc Rd. Pf., HEALTH & HSEHOLD (1) Drew Scientific, HOTELS & LEIS (2) First Leisure, Ladbroke, MEDIA (2) Blenheim 6.4pc Pf., Hodder Headline, MTL & MTL FORMING (1) Triplex Lloyd, MISC (1) Shanks & McEwan, OIL & GAS (1) Triton Europe, PACKG, PAPER & PRINTG (1) Field, PROP (1) Cathay Intl., STORES (2) Betterware, Burton.

FINANCIAL TIMES EQUITY INDICES

	Nov 17	Nov 16	Nov 15	Nov 12	Nov 11	Year ago	*High	*Low
Ordinary share	2363.8	2347.9	2346.4	2343.7	2340.6	2012.2	2414.2	2124.7
Ord. div. yield	3.93	3.96	3.96	3.96	3.96	4.59	4.52	3.82
Earning yld % full	4.60	4.63	4.62	4.62	4.62	6.46	5.38	4.47
P/E ratio net	27.23	27.04	27.11	27.13	27.14	19.72	28.30	19.40
P/E ratio nil	25.26	25.08	25.14	25.16	25.18	18.22	26.14	18.14
Gold Mines	242.5	246.9	243.2	249.6	244.1	68.0	249.6	60.0

*for 1993. Ordinary share index since compilation: high 2414.2 31/8/93 - low 49.4 26/6/40
Gold Mines Index since compilation high: 734.7 15/2/83- low 43.5 26/10/71
Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2361.9	2349.5	2360.8	2365.3	2364.2	2361.5	2362.0	2361.6	2361.9	2365.6	2346.3

Volume	Nov 17	Nov 16	Nov 15	Nov 12	Nov 11	Year ago
SEAQ Bargains	28,725	27,404	28,523	32,710	29,165	23,596
Equity Turnover(£m)†	-	1322.4	1050.0	1300.2	1647.4	1041.9
Equity Bargains†	-	31,353	32,026	37,680	32,928	25,986
Shares traded (ml)†	-	570.5	472.1	592.1	619.5	451.0

† Excluding intra-market business and overseas turnover.

London report and latest Share Index
Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p at all other times.

EQUITY FUTURES AND OPTIONS TRADING

ECONOMIC data from the UK which suggested that any inflation worries were overdone sent the futures contract on the FT-SE 100 Index soaring yesterday as the market became convinced that a further reduction in interest rates was needed, *writes Peter John.*

Derivatives began wearily, *digesting* a very large trade in Footsie options on Wednesday. Then, the mid-morning news on the RPI sent December sharply *forward, as hopes* rose of an imminent rate cut. Sales data, pointing to a sluggish recovery, *also added impetus.*

The optimism gave a boost to gilts and short sterling and pushed the *FT-SE futures* contract for December to a high of 3,142 shortly afterwards, a premium *of 16 to* the cash market compared with an estimated fair value of some 6 points above cash.

One dealer said: "After the announcement everyone was buying. And with the NAFTA vote, a Bundesbank meeting and the Budget all just ahead of us, volatility is not going to come down."

Implied volatility, the indicator *of* market uncertainty priced into options, was said to be hovering around 16 per cent for the December Footsie series. Footsie options turnover represented over 19,000 *of the total* option volume of nearly 39,000 lots. December futures hit 3,128.5 by the official close and 3,133 in after hours dealing suggesting that the market might begin *strongly today.*

FT-SE Actuaries Share Indices THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
3120.0 +22.5	3436.7 +15.7	1536.05 +9.51

	Nov 17	Day's change %	Nov 16	Nov 15	Nov 12	Year ago	Dividend yield %	Earnings yield %	P/E Ratio	Xd adj ytd	Total Return
FT-SE 100	3120.0	+0.7	3097.5	3093.3	3099.1	2704.0	3.80	5.61	22.12	87.79	1138.46
FT-SE Mid 250	3436.7	+0.5	3421.0	3416.5	3421.1	2610.9	3.54	5.77	21.07	88.18	1242.65
FT-SE Mid 250 ex Inv Trusts	3432.0	+0.5	3416.3	3412.9	3417.7	2618.0	3.66	6.21	19.76	90.40	1238.78
FT-SE-A 350	1552.0	+0.7	1541.7	1539.8	1542.3	1308.1	3.74	5.64	21.88	42.81	1160.02
FT-SE SmallCap	1759.68	—	1760.01	1762.91	1767.11	–	3.13	3.86	35.49	39.85	1330.89
FT-SE SmallCap ex Inv Trusts	1739.55	-0.1	1740.61	1744.54	1748.46	–	3.33	4.30	32.94	41.92	1317.58
FT-A ALL-SHARE	1536.05	+0.6	1526.54	1524.77	1527.48	1282.84	3.71	5.53	22.42	41.91	1168.51
1 CAPITAL GOODS(215)	1059.66	+0.4	1055.40	1054.79	1056.49	774.33	3.87	3.96	33.10	30.65	1357.84
2 Building Materials(32)	1209.50	+1.1	1196.90	1195.30	1194.75	732.36	3.79	2.85	51.04	32.11	1413.83
3 Contracting, Construction(29)	1017.13	+0.4	1013.20	1014.49	1017.67	671.41	3.12	1.23	80.00†	24.23	1421.42
4 Electricals(15)	2924.12	-1.1	2957.55	2929.20	2910.12	2141.39	4.03	3.62	33.86	105.80	1197.58
5 Electronics(35)	2842.69	+0.1	2839.61	2836.30	2828.43	2181.63	3.08	5.85	20.90	68.48	1247.66
6 Engineering-Aerospace(7)	469.43	+0.2	468.63	459.82	464.25	256.21	3.08	‡	‡	12.12	1646.58
7 Engineering-General(49)	620.92	-0.5	624.33	622.00	622.87	444.27	3.50	5.49	22.19	15.80	1252.28
8 Metals & Metal Forming(9)	467.20	+0.7	463.73	470.33	474.78	271.58	2.60	‡	‡	7.90	1481.38
9 Motors(20)	459.03	-0.1	458.29	457.30	455.82	319.86	4.83	4.00	34.67	19.41	1288.04
10 Other Industrials(19)	2062.55	+0.8	2045.22	2054.07	2064.04	1773.38	4.81	6.04	19.56	71.85	1078.51
21 CONSUMER GROUP(240)	1688.47	+1.0	1671.81	1661.64	1661.81	1665.34	3.53	6.68	18.12	43.43	990.58
22 Brewers and Distillers(29)	1858.21	+1.1	1838.39	1819.46	1802.19	1962.55	4.01	8.28	14.60	46.55	912.68
25 Food Manufacturing(24)	1329.50	+0.7	1320.71	1323.07	1312.57	1252.43	3.90	7.20	16.44	34.79	1032.30
26 Food Retailing(17)	2392.04	+2.8	2325.98	2325.33	2316.80	2931.99	3.98	10.87	11.43	61.47	753.47
27 Health & Household(31)	3602.38	+1.0	3565.75	3526.79	3567.62	4341.75	3.78	6.39	18.31	103.65	874.66
29 Hotels and Leisure(20)	1406.64	+1.4	1386.79	1385.00	1386.27	1151.77	4.18	5.84	21.43	53.05	1143.47
30 Media(34)	2201.89	+0.3	2194.27	2194.74	2197.40	1655.12	2.35	4.63	26.08	38.30	1231.18
31 Packaging and Paper(26)	887.41	+0.9	879.30	871.35	862.65	735.01	3.41	5.23	23.09	22.41	1168.37
34 Stores(35)	1320.92	+0.5	1313.85	1301.23	1302.70	1081.93	2.77	5.36	23.50	29.05	1167.81
35 Textiles(20)	845.70	+0.3	842.89	846.08	849.26	707.41	3.69	5.51	22.82	22.30	1164.30
40 OTHER GROUPS(143)	1674.71	+0.3	1669.22	1669.30	1673.46	1376.88	3.92	6.86	17.54	44.97	1202.50
41 Business Services(27)	1623.17	+0.1	1620.81	1615.04	1622.94	1416.91	2.78	7.33	15.49	32.82	1090.05
42 Chemicals(24)	1475.79	-1.2	1493.73	1517.75	1512.58	1340.51	4.40	0.40	‡	47.98	1071.22
43 Conglomerates(11)	1625.28	+1.1	1607.14	1607.33	1616.32	1329.87	4.73	6.45	17.49	48.66	1216.42
44 Transport(16)	3276.78	+1.2	3238.12	3204.65	3209.41	2436.53	3.60	4.11	27.52	89.51	1224.82
45 Electricity(17)	2146.56	+1.2	2121.67	2113.48	2117.37	1542.23	3.72	10.93	11.33	67.64	1426.08
46 Telephone Networks(4)	2055.24	-0.5	2064.90	2049.81	2059.38	1618.61	3.38	6.08	20.17	34.68	1245.78
47 Water(12)	3603.55	+1.2	3562.00	3568.19	3606.67	3322.72	4.96	12.01	9.20	118.68	1150.69
48 Miscellaneous(31)	2542.91	+0.1	2540.12	2594.12	2578.48	2363.78	4.50	7.23	16.55	83.58	1066.90
49 INDUSTRIAL GROUP(597)	1538.89	+0.6	1529.01	1524.65	1526.54	1349.99	3.73	6.19	19.71	41.15	1106.49
51 Oil & Gas(17)	2750.42	+1.1	2720.55	2751.25	2756.42	2143.06	4.10	5.81	21.53	89.73	1276.77
59 "500" SHARE INDEX(615)	1643.96	+0.7	1632.59	1630.52	1632.65	1423.92	3.77	6.15	19.90	45.06	1123.57
61 FINANCIAL GROUP(91)	1193.96	+0.3	1190.26	1190.02	1194.96	840.47	3.63	3.22	45.88	34.09	1415.95
62 Banks(9)	1672.79	—	1673.45	1674.37	1685.50	1160.34	3.22	3.75	36.69	45.27	1453.90
65 Insurance (Life)(6)	2054.31	+0.7	2040.77	2033.64	2044.74	1677.20	4.47	4.67	25.95	73.50	1214.05
66 Insurance (Composite)(7)	705.77	+1.2	697.21	701.29	703.15	609.24	4.78	‡	‡	26.54	1173.93
67 Insurance Brokers(10)	866.28	+0.2	864.90	861.75	864.27	700.76	4.53	4.82	30.26	27.02	1158.64
68 Merchant Banks(6)	811.96	—	811.90	810.61	813.19	462.50	2.90	7.16	17.13	18.79	1665.34
69 Property(30)	1094.33	+0.8	1085.19	1076.58	1070.28	614.06	3.72	3.68	35.67	24.85	1763.11
70 Other Financial(23)	439.96	+0.3	438.44	440.07	442.43	263.79	3.63	5.32	24.84	11.17	1503.08
71 Investment Trusts(111)	1736.86	+0.4	1730.38	1724.88	1727.48	1250.16	2.37	1.90	52.68	31.21	1329.39
99 FT-A ALL-SHARE(817)	1536.05	+0.6	1526.54	1524.77	1527.48	1282.84	3.71	5.53	22.42	41.91	1168.51

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3106.2	3102.1	3121.3	3124.9	3123.9	3120.9	3116.7	3113.1	3118.0	3126.1	3098.0
FT-SE Mid 250	3423.6	3421.7	3434.4	3435.3	3437.7	3437.6	3437.5	3436.5	3436.2	3438.3	3420.3
FT-SE-A 350	1545.3	1543.6	1552.2	1553.7	1553.6	1552.4	1550.8	1549.3	1551.2	1554.2	1542.8

Time of FT-SE 100 high: 10.56am low: 9.30am

FT-SE Actuaries 350 Industry Baskets

Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous close	change
Constrctn	1929.3	1926.4	1934.1	1932.5	1936.4	1937.5	1936.8	1935.2	1935.8	1935.8	1928.2	+7.6
Health&H	1085.7	1086.6	1089.9	1089.2	1088.1	1087.4	1088.5	1088.6	1088.2	1087.7	1076.3	+11.4
Water	1469.1	1465.3	1490.4	1485.4	1484.1	1483.2	1486.0	1485.8	1487.2	1487.2	1469.8	+17.4
Banks	2037.2	2034.9	2052.7	2056.6	2054.8	2048.5	2030.3	2024.9	2031.3	2033.2	2034.0	-0.8

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products *relating to those indices,* is available from FINSTAT at the same address.
The increase in the size of the FT-Actuaries All-Share Index from January 4 1993 means that the FT 500 now contains more stocks. It has been renamed the FT "500". † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.
The FT-SE 100, the FT-SE Mid 250 and the FT-SE Actuaries 350 indices are compiled by the London Stock Exchange and the FT-Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules.

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LONDON SHARE SERVICE

BRITISH FUNDS

Notes	Price £	+ or -	1993 high	1993 low	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)						
Treas 8½pc 1994	100⅝	—	102⅞	100⅝	8.45	5.36
14½pc 1994‡‡	102¾	-1/16	109¼	102¾	14.14	5.33
Exch 13½pc 1994	103½	-1/16	109¾	103½	13.04	5.33
Treas. 10pc Ln. 1994‡‡	102¾xd	-1/16	105½	102⅝	9.75	5.31
Exch 12½pc 1994	105⅜	-1/16	110⅝	105⅜	11.87	5.28
Treas 9pc 1994‡‡	103½xd	-1/16	105½	103½	8.69	5.26
12pc 1995	107½	-⅛	111½	107½	11.16	5.28
Exch 3pc Gas 90-95	97½	—	97¼	94	3.08	4.81
10¼pc 1995	107⅝	-1/16	109⅝	107⅜	9.52	5.35
Treas 12¾pc 1995‡‡	113⅝	—	116⅞	113½	11.22	5.42
14pc 1996	117⅛	-1/16	120⅝	117⅛	11.98	5.52
15¼pc 1996‡‡	121½	—	125⅝	121⅝	12.52	5.59
Exch 13¼pc 1996‡‡	117⅞	—	120¾	115¾	11.27	5.60
Conversion 10pc 1996	111½	+⅛	112⅞	108⅞	8.97	5.73
Treas 13¼pc 1997‡‡	120½	+⅛	122⅞	118½	10.96	5.89
Exch 10½pc 1997	113½	+⅛	114⅞	110⅞	9.25	5.87
Treas 8¾pc 1997‡‡	109½	+⅛	109½	105½	7.99	5.91
Exch 15pc 1997	130½	+¼	132½	127½	11.48	6.09
9¾pc 1998	113⅜	+⅛	113½	109⅛	8.63	6.14
Treas 7¼pc 1998‡‡	104⅝	+⅛	104½	99½	6.93	6.02
7¼pc 1998 B‡‡	104½	+⅛	104½	101½	6.94	6.03
Treas 6¾pc 1995-98‡‡	101½	—	101⅜	97½	6.64	5.51
14pc '98-1	129⅜xd	+¼	129½	125⅜	10.81	6.35
Five to Fifteen Years						
Treas 15½pc '98‡‡	138½	+⅛	138½	133½	11.20	6.23
Exch 12pc 1998	123½xd	+¼	124¼	118⅝	9.70	6.38
Treas 9½pc 1999‡‡	113½	+⅛	114⅛	108⅞	8.36	6.33
Exch 12¼pc 1999	125½	+⅛	126⅝	120⅞	9.73	6.45
Treas 10½pc 1999	118½xd	+⅛	119⅜	112½	8.83	6.37
Treas 6pc 1999 (£50pd)‡‡	49⅛	+⅛	49½	48¼	6.08	6.19
Conversion 10¼pc 1999	118½xd	+⅛	119⅜	112⅞	8.63	6.44
9pc 2000‡‡	113¼	+⅛	113½	106	7.95	6.39
Treas 13pc 2000	133½	+½	133⅞	125½	8.74	6.67
10pc 2001	118½	+½	119½	109½	8.42	6.68
7pc '01‡‡	102⅜	+⅛	103⅛	97½	6.89	6.56
9¾pc 2002	119½	+½	119½	108⅜	8.17	6.77
8pc 2003‡‡	109⅜xd	+½	109⅜	97⅛	7.33	6.67
10pc 2003	122½	+½	122½	109⅝	8.16	6.80

BRITISH FUNDS - Cont.

Notes	Price £	+ or -	1993 high	1993 low	Yield Int.	Yield Red.
Treas 11½pc 2001-4	126	+½	126⅛	116⅞	9.13	6.91
Funding 3½pc '99-4	81	+½	81½	67½	4.32	5.92
Conversion 9½pc 2004	120⅜	+½	120⅜	105⅞	7.87	6.85
Treas 6¾pc 2004	100⅜	+½	100⅜	97¼	6.74	6.71
Conv 9½pc 2005	120⅞	+¾	120⅞	105⅞	7.90	6.89
Treas 12½pc 2003-5	138½xd	+½	138½	124⅜	9.03	7.08
7¾pc 2006‡‡	106⅞	+⅝	108½	94½	7.25	6.91
8pc 2002-6‡‡	107¼	+½	107½	94⅜	7.46	6.88
Treas 11¾pc 2003-7	131⅜	+½	131⅜	118½	8.96	7.05
Treas 8½pc 2007‡‡	113⅛	+⅝	113¼	97⅜	7.51	6.98
8½pc 2007 C‡‡	113⅛	+⅝	113⅛	108⅛	7.51	6.98
13½pc '04-8	146½	+½	146⅜	131⅜	9.22	7.09
Over Fifteen Years						
Treas 9pc 2008‡‡	118½	+½	118¼	101¼	7.63	7.02
8pc 2009	109⅛	+½	109⅛	92⅛	7.34	7.04
Conv 9pc Ln 2011‡‡	119½	+½	119½	100½	7.54	7.05
9pc 2011 D‡‡	119½	+½	119½	116½	7.54	7.06
Treas 9pc 2012‡‡	120	+½	120⅛	100⅛	7.50	7.04
Treas 5½pc 2008-12‡‡	87⅞	+⅛	88	70¼	6.26	6.64
Treas 8pc 2013‡‡	110⅛	+½	110⅜	93½	7.26	7.03
7¾pc 2012-15‡‡	107⅞	+⅛	108	89⅝	7.18	6.97
Treas 8¾pc 2017‡‡	119½	+½	119½	97⅛	7.32	7.04
Exch 12pc '13-'17	150⅜xd	+½	150⅜	125½	7.98	7.21
Undated						
Consols 4pc	54½	+½	55⅜	43⅝	7.26	–
War Loan 3½pc‡‡	49⅜xd	+⅛	49⅞	38⅝	7.06	–
Conv 3½pc '61 Aft.	66⅛	—	67⅛	60⅞	5.27	–
Treas 3pc '66 Aft.	40⅜	+⅛	40½	33½	7.44	–
Consols 2½pc	35¼	+¼	35¾	28⅝	7.09	–
Treas. 2½pc	34⅝	+⅛	34⅝	27½	7.22	–

BRITISH FUNDS - Cont.

Notes (b)	Price £	+ or -	1993 high	1993 low	Yield (1)	Yield (2)
Index-Linked						
Treas. 2pc '94 (102.9)	138⅜	+⅛	138½	131⅝	–	–
2pc '96 (67.9)	203½	+⅛	203⅝	194½	1.23	2.07
4⅝pc '98‡‡ (135.6)	112½	+⅛	112½	105⅞	1.51	2.11
2½pc '01 (78.3)	173¼	+⅛	173¼	159	2.45	2.79
2½pc '03 (78.8)	169½xd	+⅝	169½	155	2.63	2.91
4⅜pc '04‡‡ (135.6)	115⅞	+⅞	115⅞	105½	2.85	2.92
2pc '06 (69.5)	180⅛	+1	180⅛	159¼	2.89	2.90
2½pc '09 (78.8)	164⅛xd	+1	164⅛	144	2.85	3.04
2½pc '11 (74.6)	170⅝	+1	170⅝	148½	2.92	3.09
2½pc '13 (89.2)	141⅛	+1	141⅛	122½	2.94	3.10
2½pc '16 (81.6)	151¼	+1	151¼	130½	3.00	3.14
2½pc '20 (83.0)	146⅞	+1	146⅞	124½	3.05	3.17
2½pc '24‡‡ (97.7)	123¼	+⅞	123½	102⅝	3.05	3.17
4⅛pc '30‡‡ (135.1)	123⅛	+1	123½	103⅞	3.07	3.18

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for March 1993: 139.3 and for October 1993: 141.8.

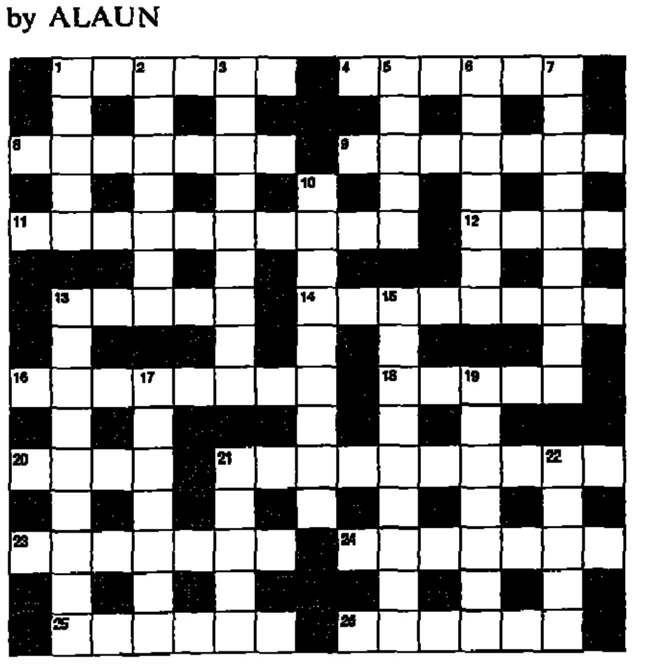
OTHER FIXED INTEREST

Notes	Price £	+ or -	1993 high	1993 low	Yield Int.	Yield Red.
African Dev 11¼ 2010	135⅛	+½	135¼	115⅞	8.23	7.38
Asian Dev 10¼pc 2009	126½	+½	126½	108½	8.08	7.33
B'ham 11½pc 2012	130	—	131¾	114	8.85	8.33
Ireland Cap 8½pc '10	108⅞	—	120	95	7.81	–
9pc Cap 1998	101⅝	+⅛	116	97½	8.88	–
13pc '97-2	113⅞	—	130	110	11.42	–
Hydro Quebec 15pc 2011	161½	+⅞	162½	139⅜	9.28	8.27
Leeds 13½pc 2006	141½	—	143¼	128	9.54	8.37
Liverpool 3½pc Irred.	41½	—	42	34	8.43	–
LCC 3pc '20 Aft.	37½	—	38	30½	8.00	–
Manchester 11½pc 2007	127½	—	129¼	114	9.02	8.19
Met. Wtr. 3pc 'B'	72⅞	—	74	63¼	4.12	6.98
Nthn Anglia 3⅞pc 2021	143	—	143¼	117½	–	3.92
4⅛pc IL 2024	137¼	—	138	115½	–	3.92
Utd Mex States 16½pc 2008	149½	—	149¾	132¼	11.04	–

Continued on next page

CROSSWORD

No.8,309 Set by ALAUN



ACROSS
1 When you come round again, have no amnesia (6)
4 Being generous, said to get a cab (6)
8 Make rings around first slip (7)
9 *On* horseback or taking a walk (7)
11 Providing complete coverage, generally speaking (2,3,5)
12 It's no good seizing back the island (4)
13 A bird and it's after seed (5)
14 Are they what the Queen is talking about? (8)
16 Loves being in a grade A, terribly expensive neighbourhood (4,4)
18 Carries as far as and is pre*pared to take back* (5)
20 Fail to see she's not wearing a wedding ring (4)
21 No view of the front from the hotel suite (10)
23 Doesn't keep the proceeds (7)
24 "Quiet!" you say (when it bangs on the window?) (7)
25 The unfinished dining-room *of 14* (6)
26 Pictures of avalanches? (6)

DOWN
1 Pull in reportedly, as a rule (5)
2 Telling you to recover lost ground – the sauce! (7)
3 Teetotallers do – copiously (4,5)
5 What led you to form a union? (5)
6 Favour force (7)
7 Reminded oneself of what a degree means (4,5)
10 Policeman who's been framed (9)
13 Well known to be quite the opposite of flush (9)
15 The engagement has got Albert hot and bothered (9)
17 Placed inside out, you argue (7)
19 Doctored at the Free Hospital? (7)
21 Because he could be Chinese (5)
22 But first reinforce the lock (5)

JOTTER PAD

Solution 8,308

P	A	L	A	T	E		B	E	T	R	A	Y	E	D
O		A		O				V		I		E		A
S	C	R	U	M	P		P	E	D	A	L	L	E	R
I		R		A				N		L		L		N
T	R	I	S	T	E		D	E	X	T	R	O	S	E
I		K		O		B	E	D		O		W		D
V	O	I	D	E	D		A		B					
E		N		S	A	N	D	B	A	R		H		A
					B		S		D	E	P	E	N	D
A		A		C		D	E	B		G		A		H
C	O	V	E	R	L	E	T		S	U	B	D	U	E
C		E		A		A				L		A		R
O	R	N	A	T	E	L	Y		G	A	U	C	H	E
R		G		E		E				T		H		N
D	R	E	S	S	E	R	S		D	E	S	E	R	T

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or −	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs		19¾	+1/16	20⅞	15⅝	16,529	2.3
Allegheny & W	♥	473p	+19	722p	389p	271.0	4.2
Amdahl		330p	+6	691p	294p	379.6	1.0
Amer Cyanamid		38½	+½	39	31¾	3,189	3.3
Amer Express		21⅝	+¼	25⅞	14⅞	10,408	3.1
Amer T & T		38⅞xd	+⅜	43¼	33⅝	51,797	2.3
Ameritech		54½	+⅜	58¾	46	22,862	4.5
Anheuser-Busch		33⅝xd	+¼	41¾	29⅛	9,305	2.9
BankAmerica		28⅛	+⅛	36⅞	27⅛	10,227	3.2
Bankers NY		51⅛	+⅛	64⅛	42⅝	4,240	4.0
Bell Atlantic		41½	+⅝	44⅜	32¼	18,041	4.3
BellSouth		38	+⅜	42⅝	32⅜	18,772	4.9
Bethlehem Steel	♥	11¾	—	13¾	8½	1,063	–
Bowater		1378p	+3	1882p	1189p	498.4	2.9
CPC		32⅞	+⅜	34⅝	26	4,981	2.6
California Engy		1190p	—	1479p	1088p	216.6	–
Chase Manhattan		21⅞	+⅞	24⅞	17⅜	3,414	3.7
Chrysler		37⅞	+⅜	39	21⅛	10,999	1.1
Citicorp		24⅛	—	26	13⅞	8,818	–
Colgate-Palm		39¼	+1⅛	45⅞	32	6,296	2.4
Cont'l Bank		1647p	—	1877p	1278p	1,084	2.4
Dana		38⅞	−⅜	39⅞	29⅞	1,770	2.8
Data General		676p	+21	851p	527p	100.5	–
Decora Inds	♥	100p	—	146p	88p	–	–
Dun & Brad		44¾	+⅛	46⅞	37⅛	7,979	3.7
Eaton		34⅝	—	37⅛	25⅞	2,408	2.3
Echlin		22	—	22⅜	15⅞	1,282	2.1
FPL		25⅞	+⅛	27⅝	23⅛	4,844	6.5
Ford Motor		42⅞	+⅞	43⅞	28⅞	20,893	2.5
Gen Elect		65⅞	+1⅜	67⅞	53⅞	85,619	2.6
General Host	♥	485p	+3	723p	456p	–	4.8
Gillette		42⅞xd	+1⅞	42⅝	31⅞	6,339	1.3
Hasbro		20⅞	—	20⅞	20⅞	1,819	0.8
Honeywell		21⅝	+⅛	28½	20⅞	4,408	2.8
Houston Inds		31¾	+¾	33¾	28¼	4,112	6.3
Ingersoll-Rand		25⅞xd	+⅝	25⅞	18⅝	2,883	1.8
Lockheed		47⅜	+⅝	47⅞	35¼	2,938	3.0
Lowe's		3528p	+158	3528p	1573p	2,572	0.6
Malvy Technology		347p	−2	432p	127p	–	–
Merrill Lynch		62⅞	+⅛	66⅞	37	10,023	1.7
Morgan (JP)		47⅜xd	+⅞	52⅞	38¾	8,149	3.3
Morris (Philip)	§	38¾	−⅜	52⅝	39	33,958	4.6

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICALS - Cont.

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

of more than 20 ... the very least Russia is likely to need World Bank help if it is to proceed.

In the Ukraine, unable and

Mr Rémy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

fuels and other factors over which the nuclear industry has little control.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

INVESTMENT COMPANIES

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

	Price	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Ennex Intl IE	6¾	—	7¾	3¾	5.67	–
Europa Mins	32	—	42	15	15.4	–
Glencar Expl IE	11	—	12	6	2.03	–
Greenwich Res	15¼	—	22¼	5	12.5	–
Hemlo Gold C$	£7¼	–⅛	£8½	£3½	589.5	1.4
Iverna West IE	33	—	67	31	16.6	–
Kells Mins IE	12	—	14	6	0.29	–
Kenmare	9½	—	13½	6	9.51	–
Malinga Res	9½	—	25½	7	1.05	–
Navan Res IE	99	—	104	25	19.7	–
5pc Ln Notes	93½	–5	98½	25	16.8	–
Oryx Gold	45	—	78½	27	–	–
‡‡Ovoca Res IE	10	—	10	3½	0.70	–
RTZ	658	+6	746	607	7,001	5.2

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- Φ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed: dealings permitted under Rule 535(2)
- § Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IIMR 'Headline Earnings' draft proposals.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣ . Ring 081 643 7181 (open 24 hours including weekends) or fax 081 770 3822, quoting the code FT2732. (If calling from outside UK, dial +44 81 643 7181 or fax +44 81 770 3822) Reports will be sent the next working day, subject to availability. If faxing please remember to state the weekly changing FT code above and also your post code.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
AIB Unit Trust Managers Limited (1000)F						
51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783						
AIB Grofund American	5	166.5	168.2xd	177.0	+2.10	0.00
AIB Grofund Equity	5	229.8	232.4	245.8	+1.28	1.68
AIB Grofund Euro	5	187.8	189.3	199.3	-0.80	0.00
AIB Grofund Eqt Balanced	3	112.0	113.4	117.5	-22.10	1.17
AIB Grofund Gilt	3	80.27	80.29	82.77	+0.18	4.84
AIB Grofund Japan	5	171.0	172.5xd	181.6	-0.10	0.00
AXA Equity & Law Unit Tst Mngrs (1200)H						
Equity & Law Hse, Corpn St, Coventry 0203 553231						
General Inc	6	454.8	458.1	485.3	+2.8	2.33
General Acc	5	502.8	505.3	538.7	+1.1	2.33
UK Growth Acc	6	339.9	347.4xd	363.2	+2.4	2.54
UK Growth Inc	6	236.9	239.1xd	254.3	+1.7	2.54
Higher Inc Acc	6	629.9	634.8xd	675.4	+5.4	3.80
Higher Inc Inc	6	374.1	379.4xd	403.7	+3.3	3.80
Gilts/Fxd Int Acc	5½	190.7	190.7	201.3	+0.7	5.80
Gilts/Fxd Int Inc	5½	97.47	97.47	102.8	-0.4	5.80
Nth American	6	264.8	269.1xd	288.3	-0.4	0.00
Far East	6	343.9	343.8xd	365.8	-0.4	0.01
Europe	6	254.5	258.4	274.9	-0.8	0.88
Brit Ind [illegible]	6	69.06	69.00xd	73.47	+0.54	2.59
Brit Fndmntls Acc	6	95.05	96.44	102.6	+0.6	4.41
Brit Fndmntls Inc	6	72.11	73.23	77.91	+0.47	4.41
Global Opps	6	81.45	83.06xd	88.37	+0.23	0.00
Balanced Acc	6	51.65	52.32xd	55.66	+0.3	2.42
Balanced Inc	6	51.19	51.85xd	55.16	+0.3	2.42
Abbey Unit Tst Mngrs (1000)H						
80 Holdenhurst Rd, Bournemouth 0345 717373						
Gilts & Fixed Int	6	138.1	138.1	146.4	+0.5	5.46
High Inc Equity	6	157.4	160.0xd	170.2	+1.1	4.65
Worldwide Bond	6	274.4	274.4xd	290.9	+1.1	3.61
American Growth	6	305.7	305.7	326.9	+3.5	.97
Asian Pacific	6	330.8	337.9	358.4	+0.1	.20
Assets & Earnings	6	240.3	240.5xd	257.2	+1.8	2.12
Capital Reserve Acc	0	129.9	129.9	129.9	...	5.20
Comdy & Energy	6	108.8	108.8	116.3	+1.8	.47
1992 Enterprise	6	87.14	87.14	93.19	+0.33	2.08
Euro Capital Acc	6	126.0	126.0	134.7	...	.75
Euro Capital Inc	6	118.4	118.4	126.6	-0.1	.77
General	6	218.0	221.8	235.9	+1.5	2.31

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Capel-Cure Myers UT Mngt Ltd - Contd.						
Exempt Fund						
High Yield	2	1282.00	1291.00xd	1330.00	+9.00	4.08
(Accum Units)	2	1542.00	1553.00	1602.00	+11.00	4.08
Capital House Unit Tst Mgrs (1200)F						
Capital House, Festival Square, Edinburgh. 031-228 4477 Dealing 0800 022561						
American Gwth Tst	6	38.09	38.43xd	41.10	+0.48	0.80
American Gwth Tst Acc	6	38.28	38.66xd	41.34	+0.48	0.80
Cash Acc	0	61.04	61.04xd	61.04	+0.01	5.33
Do Income	0	50.01	50.01xd	50.01	+0.01	5.33
European Gwth	6	36.39	36.99	39.43	+0.21	0.89
Income & Gwth Acc	6	29.20	29.49	31.54	+0.2	4.25
Do Income	6	27.02	27.23	29.12	+0.18	4.25
Intl Gwth	6	31.41	31.47	33.65	+0.14	0.78
Japan Gwth	6	27.62	27.64	29.56	-0.07	-
Managed Tst Acc	6	49.48	49.83	53.07	+0.27	0.51
Do Income	6	48.03	48.17	51.51	+0.26	0.51
Oriental Opps Acc	6	154.1	158.6	169.6	+0.3	0.81
Do Income	6	148.9	151.8	162.3	+0.3	0.81
Property Shares	6	40.58	41.64	44.53	+0.08	1.83
Smaller Cos	6	28.11	29.11xd	31.13	-0.9	1.70
UK Growth Tst	6	24.45	24.61	26.32	+0.13	2.86
Mngd Exempt Acc	3	258.3	269.8	277.9	+1.1	2.38
Do Income	3	236.1	237.4	247.3	+1	2.38
Royal Scottish Assurance						
Roy Scot/Cap Hse Gwth Acc	6	74.48	74.80	79.80	+0.5	1.69
Do Income	6	70.83	71.13	76.07	+0.47	1.69
Roy Scot/Cap Hse UK Acc	6	70.23	70.60xd	75.50	+0.53	2.44
Do Income	6	65.20	65.54xd	70.06	+0.49	2.44
CH Unit Managers Ltd (Formerly Brown Shipley)						
CH Mgd Euro Inc ♥	6	24.38	24.38	26.20	+0.20	0.41
CH Mgd Europ Acc ♥	6	25.27	25.27	27.18	+0.21	-
CH Financial ♥	6	144.1	144.1	153.5	+0.70	2.65
CH Foundation ♥	6	82.61	84.43	90.30	+0.18	2.90
CH German ♥	6	50.48	50.48	53.74	+0.17	0.07
CH High Income ♥	6	78.83	78.83	81.82	+0.22	6.25
CH Income ♥	6	130.1	132.4xd	141.6	+0.60	3.89
CH Mgd Intl Growth	6	38.19	38.19xd	40.67	-0.14	0.16
CH Mngd Ptfolio Inc ♥	6	100.1	100.1	107.0	+0.40	1.70
CH Mngd Ptfolio Acc ♥	6	190.4	190.4	203.6	+0.80	-
CH Monthly Income ♥	6	79.66	79.71	84.18	+0.22	3.96
CH Mgd Nth American ♥	6	114.3	114.3	122.2	+0.40	0.15
CH Orient	6	143.1	143.1	154.4	+0.40	-
Cazenove Unit Trust Mngmt Ltd (1600)F						
3 Copthall Avenue, London EC2R 7BH 071-606 0708						
Cazenove Portfolio	5	78.73	79.74	85.29	+0.30	2.36

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
PO Box 410, Chester X, CH99 9QB 0244 680066						
M & G Inv P'folio	5½	149.4	149.8	158.9	+0.51	1.88
Do Accum	5½	166.4	166.5	178.1	+0.51	1.88
UK Sel P'folio	5½	122.8	123.7	131.8	+0.53	2.10
Do Accum	5½	136.7	139.3	149.0	+0.53	2.10
Marlborough Fund Managers Ltd (1630)F						
57 Victoria Square, Bolton, BL1 1LA 0204 384842						
Managed Tst	5	70.02	70.79	75.31	...	3.29
Martin Currie Unit Trusts Ltd (0905)H						
Saltire Crt, 20 Castle Terrace, Edinburgh 031-479 4646						
Intl Income	5¼	74.12	74.70	79.30	+0.25	4.06
European Inc	5¼	78.78	78.78	83.63	+0.29	0.88
Income & Growth	5¼	75.94	75.94xd	80.62	+0.05	3.10
Nth American Ld	5¼	62.79	62.79	66.66	+0.74	0.07
Far East Ld ♦	5¼	161.1	161.1	171.0	+1	-
Charities	5¼	113.6	114.6xd	121.7	+0.6	4.00
Japan	5¼	56.01	56.01	59.46	+0.06	-
Emerging Markets	6	107.0	109.3	116.9	+2.1	0.15
Intl Growth(9-1)	5¼	105.7	106.7xd	113.3	+0.7	0.16
UK Growth	5¼	79.19	80.75xd	85.72	+0.42	1.83

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Gilt & Convertible	6	174.89	115.03	122.37	+0.42	7.49
Property F	6	74.63	76.76	81.66	+0.11	6.70
Cash Deposit Accum F	0	108.92	108.92xd	108.92	+0.01	5.35
PDFM Unit Managers Ltd (1400)F						
14 Finsbury Square, London EC2A 1PD 071-628 6070						
UK Exempt Nov 17	¼	134.24	134.24xd	138.24	+1.44	3.47
Charities Intl Nov 12	¾	173.16	173.16xd	175.76	—	2.61
Pearl Unit Trusts Ltd (1000)F						
Pearl Centre, Lynch Wd, Peterborough PE2 6FY						
Dealing: 0800 626577 Enquiries: 0733 470470						
Equity	6	230.2	231.5	246.4	+1.00	2.22
(Accum Units)	6	472.0	478.6	509.3	+3.00	2.22
Growth	5	146.1	147.8	156.5	+0.80	2.42
(Accum Units)	5	257.1	261.5	276.2	+1.30	2.42
Income	6	233.4	236.6xd	251.8	+1.00	3.26
Intl Equity	6	241.6	243.2	258.7	+1.30	0.66
(Accum Units)	6	266.1	268.0	285.0	+1.40	0.66
UK Income	6	64.53	65.39	69.56	+0.49	2.80
UK Intl 25	6	74.80	75.48	80.29	+0.53	1.73
UK Smaller Co's Acc	6	79.16	81.26	86.44	-0.19	1.45
New Europe	6	68.20	68.44	72.81	+0.04	0.30

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

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In the Ukraine, unable and

Mr Rémy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

fuels and other factors over which the nuclear industry has little control.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Sun Alliance Unit Tst Mngmt Ltd - Contd.

Sun Life of Canada Unit Mgrs Ltd (1000)H

Sun Life Trust Mngmt Ltd (1200)H

101, Cannon St, London EC4N 5AD

Murray Johnstone UT Mngmt

NatWest Investment Management Ltd

PDFM Unit Managers Ltd

Barclays Life Assur. Co Ltd

252 Romford Road, London E7

INSURANCES

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

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J Rothschild Assurance PLC

J Rothschild House, Dollar Street, Cirencester
Telephone 0285 640302 Helpline: 041-307 8500

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Income Distribution	110.2	116.0	+0.30	-
JRA/M&G Managed	136.8	144.7	+0.10	-
JRA/Scottish Amicable Mngd	127.8	134.4	-0.10	-
JRA/St James's Place Mngd	149.3	157.2	+0.10	-
Deposit	102.8	108.1		-
Far East	160.6	169.1	+0.20	-
Gilts	124.0	130.6	+0.10	-
Greater European	133.2	140.3	+0.20	-
North American	149.4	157.3	+0.30	-
UK Equity	128.7	135.5	-0.20	-
Pension Funds				
JRA/M&G Managed cap	136.2	143.4	+0.10	-
JRA/M&G Managed acc	144.7	152.4	+0.10	-
JRA/Scottish Amicable Mngd cap	127.3	134.1	-0.20	-
JRA/Scottish Amicable Mngd acc	135.3	142.5	-0.20	-
JRA/St James's Pl Mngd cap	163.1	171.7	+0.30	-
JRA/St James's Pl Mngd Acc	173.3	182.5	+0.30	-
Deposit cap	101.8	107.2		-
Deposit acc	108.2	113.9		-
Far East cap	161.2	169.7	+0.30	-
Far East acc	171.3	180.4	+0.40	-
Gilts cap	119.7	126.0	+0.10	-
Gilts acc	127.2	133.9	+0.10	-
Greater European cap	135.0	142.2	+0.20	-
Greater European acc	143.5	151.1	+0.20	-
North American cap	160.8	168.6	+0.50	-
North American acc	160.1	168.6	+0.60	-
UK Equity cap	127.9	134.7	-0.20	-
UK Equity acc	136.0	143.2	-0.20	-

Royal Heritage Life Assurance Ltd

Peterborough Business Pk, PE2 6GG 0733 390000

	Bid Price	Offer Price	+ or -	Yield Gross
Mngd Gwth		735.0		-
Mngd Gwth A Cap	482.4	407.1		-
Mngd Gwth A Accum	735.1	773.8		-
Op Prop	431.6	454.4	+0.1	-
Op Equity	860.8	906.7	+1.6	-
Op High Yld	589.2	620.3	+0.5	-
Op Man	758.2	798.0	+1.2	-
Op Dep	380.3	400.4		-
Op Inc Dist	228.7	240.8	+0.1	6.160
Op Int Man	458.7	480.8	+1.4	-
Op Emerging Co's	437.0	460.0	-0.5	-
Op Money	106.0	111.6		-
Europa	124.5	131.1	+0.5	-
Pension Funds				
Property Ser B	820.0	863.2	+0.1	-
Equity Ser B	2789.6	2936.5	+22.0	-
Fixed Interest Ser B	1112.7	1171.3	+1.0	-

Scottish Provident Group

6 St Andrew Sq, Edinburgh 031-556 2052

Scottish Provident Institution Funds

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
With-Profits	106.7	112.4		-
Managed	258.1	271.6	+1.7	-
Blue Chip	140.1	147.6	+1.1	-
Equity	270.0	284.3	+0.7	-
International	281.5	296.4	+1.4	-
Property	201.2	211.9		-
Fixed Interest	222.9	234.6		-
Index-linked	185.6	195.4	+0.6	-
Cash	181.8	191.3		-
Money Market	119.6	125.9		-
American Performance	182.2	191.9	+1.7	-
Europe Performance	121.0	127.5	-0.1	-
Far East Performance	128.7	133.5	+1.1	-
Worldwide Performance	143.8	151.5	-0.6	-
Pension Funds				
With-Profits Ord	200.3	210.9	+0.1	-
Managed Ord	319.4	336.3	+1.6	-
Blue Chip Ord	147.4	155.3	+1.3	-
Equity Ord	334.8	352.8	+1.1	-
International Ord	345.1	364.4	+2.3	-
Property Ord	254.8	268.4	+0.1	-
Fixed Interest Ord	304.8	321.0		-
Index-linked Ord	203.2	214.0	+0.6	-
Cash Ord	252.7	266.1	+0.1	-
Building Society Ord	191.4	201.5		-
American Performance Ord	204.4	215.3	+1.5	-
Europe Performance Ord	116.1	122.3	-0.2	-
Far East Performance Ord	144.9	152.6	+1.5	-
Worldwide Performance Ord	169.4	187.9	+0.7	-

Scottish Provident Assurance Ltd Funds
(Formerly Prolific Life & Pensions Ltd)

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Adventurous Mngd	194.6	207.1		-
Balanced Gwth Mngd	769.3	818.5		-
Cautious Mngd	142.8	151.8		-
Fixed Interest	455.5	490.3		-
Gilt Fund 20	479.1	509.7		-
Equity	921.7	979.9		-
International	415.5	442.1		-
Property	227.2	241.8		-
Cash	327.8	345.5		-
Special Situations	614.8	654.2		-
High Income	674.8	717.9		-
Extra Income	364.3	387.6		-
Convertible & Gilt	178.0	189.4		-
Pref & Fixed Interest	125.5	133.6		-
Recovery	140.2	147.8		-

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

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In the Ukraine, unable and

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economy, ... fuels and other factors over which the nuclear industry has little control.

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JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE

D-Mark remains weak

The D-Mark continued to weaken against most European currencies, though it managed to recoup some of its losses in late trading yesterday, *writes Conner Middelmann*.

The German currency's slippage was triggered by Tuesday's 9 basis-point drop in the Bundesbank's rate for two-week securities repurchase agreements which spurred talk that the Bundesbank has embarked on a more aggressive easing course.

"With the recession deepening, M3 headed back towards the target range and inflation set to fall below 3 per cent in the first half of next year, the economic fundamentals point to an acceleration of the easing course," said Mr Michael Burke, an economist with Citibank in London.

Still, most analysts said they did not expect to see a cut in Germany's leading discount and Lombard rates at today's meeting of the Bundesbank's central bank council.

The Belgian and French francs posted significant gains against the D-Mark, with the Belgian currency receiving an extra boost from a sharp cut in key money market rates which was seen to inject new life into the flagging Belgian economy.

The Belgian franc firmed to around its previous European exchange rate mechanism floor of BFr21.0950 against the mark. It hit an intra-day high of BFr21.090 but closed slightly lower at BFr21.25.

The French franc also firmed markedly, hitting its highest level against the D-Mark since the summer ERM crisis. It hit a high of FFr3.4560 to the D-Mark, compared to its floor of FFr3.4305 before the ERM trading bands were widened on August 2. In late London trading it was quoted at FFr3.4615.

Despite the franc's strength against the D-Mark, "we did not see any intervention by the Bank of France on the cross," a Paris-based analyst reported. The Bank of France could have profited from the franc's strength to replenish its foreign currency reserves, which were depleted during the last ERM crisis and are slowly being rebuilt.

However, "they may have done something via the US dollar," he suggested. This could involve selling francs for dollars and then selling those dollars for D-Marks - a less visible way for a central-bank to operate in the foreign exchange market.

Sterling largely shrugged off rate-cut speculation following lower-than-expected retail price and sales data and eased only 1 pfennig against the D-Mark to DM2.5175. Against the US dollar it closed at $1.4770, compared with $1.4855 at Tuesday's close.

The dollar rose early in London on hopes that the North American Free Trade Agreement would be approved by US Congress and received an additional boost from strong housing starts data. However, it slipped on late profit-taking to close only slightly higher at DM1.7050, compared with DM1.7020 on Tuesday. Against the Yen it ended at Y107, up from Y106.55 on Tuesday.

£ IN NEW YORK

Nov 17	Latest	Previous Close
£ Spot	1.4795 - 1.4805	1.4800 - 1.4810
1 month	0.34-0.33pm	0.35-0.34pm
3 months	0.82-0.81pm	0.83-0.82pm
12 months	2.41-2.34pm	2.53-2.48pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Nov 17	Previous
8.30 am	81.0	81.3
9.00 am	81.1	81.2
10.00 am	81.0	81.2
11.00 am	81.1	81.2
Noon	81.0	81.2
1.00 pm	81.0	81.2
2.00 pm	81.0	81.2
3.00 pm	81.0	81.2
4.00 pm	80.9	81.2

CURRENCY RATES

Nov 17	Bank ♣ rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.937378	0.761074
U.S Dollar	3.00	1.39435	1.12448
Canadian $	4.40	1.83915	1.47814
Austrian Sch	5.25	16.8248	13.5365
Belgian Franc	5.50	50.2454	40.7121
Danish Krone	6.75	9.41117	7.62571
D-Mark	5.75	2.36342	1.92490
Dutch Guilder	5.25	2.65177	2.15924
French Franc	-	8.20784	6.65528
Italian Lira	8.5	2323.21	1878.21
Japanese Yen	1.75	148.777	120.714
Norway Krone	-	10.2631	8.33695
Spanish Peseta	-	191.165	155.101
Swedish Krona	11.50	11.4339	9.28264
Swiss Franc	4.25	2.08246	1.69516
Greek Drach	21	N/A	274.993
Irish Punt	-	N/A	0.805391

♣ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland. † European Commission Calculations. * All SDR rates are for Nov 16

CURRENCY MOVEMENTS

Nov 17	Bank of England Index	Morgan** Guaranty Changes %
Sterling	80.9	-28.30
U.S Dollar	66.5	-11.00
Canadian Dollar	91.9	+10.16
Austrian Schilling	114.4	+15.54
Belgian Franc	112.0	-1.40
Danish Krone	114.4	+8.73
D-Mark	124.0	+22.06
Swiss Franc	114.0	+22.97
Dutch Guilder	118.2	+21.55
French Franc	105.9	-5.54
Lira	77.0	-36.05
Yen	183.2	+125.34
Peseta	86.8	-33.57

Morgan Guaranty changes: average 1980-1982=100. Bank of England (Base Average 1985=100) **Rates are for Nov 16

OTHER CURRENCIES

Nov 17	£	$
[illegible]	[illegible]	[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Nov 17	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator‡
Dutch Guilder	2.19672	2.15924	-1.71	4.32	-
D-Mark	1.94964	1.92490	-1.27	3.86	-
Irish Punt	0.808628	0.805391	-0.40	2.95	3
Spanish Peseta	154.250	155.101	0.55	1.98	-4
Belgian Franc	40.2123	40.7121	1.24	1.28	-9
Portuguese Escudo	192.854	195.762	1.51	1.02	-10
French Franc	6.53883	6.65528	1.78	0.75	-15
Danish Krone	7.43679	7.62571	2.54	0.00	-17

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.

POUND SPOT - FORWARD AGAINST THE POUND

Nov 17	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4735 - 1.4830	1.4765 - 1.4775	0.34-0.33cpm	2.68	0.84-0.81pm	2.23
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	256.00 - 257.80	256.00 - 257.00	88-199cdis	-6.74	299-405dis	-5.49
Spain	202.40 - 204.40	202.40 - 202.70	62-69cdis	-3.88	184-198dis	-3.77
Italy	2460.45 - 2472.85	2464.50 - 2465.50	6-8liredis	-3.41	20-22dis	-3.41
Norway	10.9225 - 10.9825	10.9225 - 10.9325	1⅛-¼cpm	0.75	2⅛-⅛pm	0.43
France	8.7200 - 8.7635	8.7200 - 8.7300	¼-1cdis	-1.20	2-2⅛dis	-1.00
Sweden	12.1545 - 12.2615	12.1550 - 12.1650	1⅝-2⅞oredis	-1.97	4½-5½dis	-1.84
Japan	157.50 - 158.65	157.50 - 158.50	½-⅜ypm	3.32	1⅜-1¼pm	3.32
Austria	17.67 - 17.80	17.70 - 17.73	⅓-1⅛grodis	-0.59	1⅞-3⅛dis	-0.64
Switzerland	2.2050 - 2.2300	2.2050 - 2.2150	¼-⅛cpm	1.02	⅝-½pm	1.02
Ecu	1.3115 - 1.3165	1.3105 - 1.3115	0.10-0.15cdis	-1.14	0.34-0.41dis	-1.14

Commercial rates taken towards the end of London trading. Six-month forward dollar 1.44-1.39pm. 12 Month 2.45-2.36pm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Nov 17	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4735 - 1.4830	1.4765 - 1.4775	0.34-0.32cpm	2.68	0.84-0.81pm	2.23
Ireland†	1.3895 - 1.4005	1.3970 - 1.3980	0.39-0.37cpm	3.26	1.03-0.99pm	2.89
Canada	1.3090 - 1.3185	1.3150 - 1.3160	0.10-0.12cdis	-1.00	0.25-0.31dis	-0.85
Netherlands	1.9120 - 1.9235	1.9135 - 1.9145	0.46-0.49cdis	-2.98	1.19-1.24dis	-2.54
Belgium	36.05 - 36.40	36.10 - 36.20	14.00-17.00cdis	-5.15	38.00-45.00dis	-4.59
Denmark	6.7570 - 6.7850	6.7600 - 6.7650	2.80-3.10oredis	-5.23	7.80-8.20dis	-4.73
Germany	1.7030 - 1.7150	1.7045 - 1.7055	0.46-0.47pfdis	-3.27	1.21-1.23dis	-2.86
Portugal	173.30 - 174.20	173.65 - 173.75	130-134cdis	-9.12	362-375dis	-8.49
Spain	137.40 - 138.15	137.55 - 137.65	74-79cdis	-6.67	206-216dis	-6.13
Italy	1664.00 - 1671.75	1668.75 - 1669.25	8.00-8.80liredis	-6.04	23.50-24.50dis	-5.75
Norway	7.3765 - 7.4225	7.3950 - 7.4000	1.30-1.50oredis	-2.27	3.60-4.00dis	-2.05
France	5.8990 - 5.9270	5.9050 - 5.9100	1.77-1.85cdis	-3.68	4.73-4.88dis	-3.25
Sweden	8.2170 - 8.2795	8.2300 - 8.2350	3.00-3.30oredis	-4.59	7.75-8.15dis	-3.86
Japan	106.85 - 107.50	106.95 - 107.05	0.06-0.05ypm	0.62	0.30-0.29pm	1.10
Austria	11.9950 - 12.0500	12.0025 - 12.0075	3.10-3.40grodis	-3.25	8.00-8.90dis	-2.82
Switzerland	1.4950 - 1.5095	1.4965 - 1.4975	0.18-0.20cdis	-1.52	0.42-0.47dis	-1.19
Ecu†	1.1220 - 1.1280	1.1255 - 1.1265	0.38-0.36cpm	3.94	1.00-0.96pm	3.28

Commercial rates taken towards the end of London trading. † UK, Ireland and Ecu are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

Nov 17	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	6 - 5¾	5¹³⁄₁₆ - 5¹¹⁄₁₆	5¾ - 5¹¹⁄₁₆	5⁹⁄₁₆ - 5⁷⁄₁₆	5⁷⁄₁₆ - 5⅜	5⁷⁄₁₆ - 5⅜
US Dollar	3⁵⁄₁₆ - 2¹³⁄₁₆	3⅛ - 3	3⅛ - 3	3⁵⁄₁₆ - 3³⁄₁₆	3½ - 3⅜	3¾ - 3⅝
Can. Dollar	3¹³⁄₁₆ - 3¼	4¹⁄₁₆ - 3⅞	4⅛ - 4	4¼ - 4⅛	4½ - 4⅜	4¹³⁄₁₆ - 4¹¹⁄₁₆
Dutch Guilder	6¹⁄₁₆ - 5¹³⁄₁₆	6¹⁄₁₆ - 5¹⁵⁄₁₆	6 - 5⅞	5¹⁵⁄₁₆ - 5¹³⁄₁₆	5⅝ - 5½	5⅝ - 5½
Swiss Franc	5 - 4¾	4¾ - 4½	4⅝ - 4½	4⁷⁄₁₆ - 4⁵⁄₁₆	4⁵⁄₁₆ - 4³⁄₁₆	4⅛ - 4
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXCHANGE CROSS RATES

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS; LIFFE EURO SWISS FRANC OPTIONS; LIFFE BUND FUTURES OPTIONS; LIFFE EUROMARK OPTIONS; LIFFE ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS; LIFFE SHORT STERLING OPTIONS; LONDON (LIFFE); CHICAGO; PHILADELPHIA SE £/$ OPTIONS; PARIS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BASE LENDING RATES

Adam & Company 6	Duncan Lawrie 6	●Rea Brothers 6
Allied Trust Bank 6	Exeter Bank Limited 7	*Roxburghe Guarantee Corp Ltd 6 * (in administration)
AIB Bank 6	Financial & Gen Bank 7	Royal Bk of Scotland 6
●Henry Ansbacher 6	●Robert Fleming & Co 6	●Smith & Williamson Secs 6
Bank of Baroda 6	Girobank 6	Standard Chartered 6
Banco Bilbao Vizcaya 6	●Guinness Mahon 6	TSB 6
Bank of Cyprus 6	Habib Bank AG Zurich 6	●United Bk of Kuwait 6
Bank of Ireland 6	●Hambros Bank 6	Unity Trust Bank Plc 6
Bank of India 6	Heritable & Gen Inv Bk 6	Western Trust 6
Bank of Scotland 6	●Hill Samuel 6	Whiteaway Laidlaw 6
Barclays Bank 6	C. Hoare & Co 6	Wimbledon & Sth West 6
Brit Bk of Mid East 6	Hongkong & Shanghai 6	Yorkshire Bank 6
●Brown Shipley 6	Julian Hodge Bank 6	
CL Bank Nederland 6	●Leopold Joseph & Sons 6	● Members of British Merchant Banking & Securities Houses Association
Citibank NA 6	Lloyds Bank 6	
City Merchants Bank 6	Meghraj Bank Ltd 6	
Clydesdale Bank 6	Midland Bank 6	
The Co-operative Bank 6	*Mount Banking 6	
Coutts & Co 6	* (in administration)	
Credit Lyonnais 6		
Cyprus Popular Bank 6	NatWestminster 6	

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.4770	1.4737	1.4688	1.4629	1.4530

MONEY MARKETS

Belgium cuts rates

After Tuesday's cuts in German and Dutch money market rates, Belgium cut its key interest rates sharply yesterday, taking advantage of the strength of its currency, *writes Conner Middelmann*.

It cut its central rate to 8.30 per cent from 9.40 per cent and its discount rate to 5.50 per cent from 6.00 per cent. This followed a government agreement on a programme of austerity measures designed to stem the growing deficit in the social security budget, address unemployment and boost companies' competitiveness.

UK clearing bank base lending rate 6 per cent from January 26, 1993

The recent rash of European rate cuts spurred talk that France will be the next to ease, with some dealers calling for a reduction in the 6.45 per cent intervention rate at today's round of securities repurchase agreements. The December PIBOR futures contract jumped 0.10 point to 93.67.

However, many expect France to continue taking its time over rate reductions. "The Bank of France will let the overnight rate slide along with the German repo rate, and will first try to reduce the gap between the intervention rate and the overnight rate," said Mr Dominique Barbet, economist with Paribas Capital Markets in Paris. The overnight rate traded around 6½ per cent yesterday and he said it could slip to 6¼ per cent Thursday.

"The French economy needs lower rates, but as long as the authorities want the franc to stay firm, they will have to maintain a certain spread in French short-term rates over Germany's," he added. The French intervention rate is 70 basis points above Germany's discount rate.

The Bundesbank's central bank council meets today, but according to a Reuters poll, 18 out of 20 European economists surveyed did not expect the German central bank to cut rates today.

In the UK money market, the short sterling contract jumped on lower-than-expected retail sales and inflation data which fuelled speculation of significant base rate cuts in, or around the time of, the November 30 Budget.

"Many people are now looking for a total one-point base rate cut before the end of the year," said a senior money dealer. The short sterling future rose 0.16 point to 94.63.

After announcing an initial shortage of £1bn, the Bank purchased a total of £293m in its market operations and provided late assistance of around £350m.

FT LONDON INTERBANK FIXING

(11.00 a.m. Nov 17) 3 months US dollars		6 months US Dollars	
bid 3⁵⁄₁₆	offer 3⁷⁄₁₆	bid 3⅜	offer 3½

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

Treasury Bills and Bonds

Lunchtime					
		One month	3.01	Three year	4.42
		Two month	3.09	Five year	4.97
Prime rate	6	Three month	3.16	Seven year	5.19
Broker loan rate	6	Six month	3.34	10-year	5.62
Fed.funds	3	One year	3.65	30-year	6.18
Fed funds at intervention	-	Two year	4.06		

Nov 17	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	6.20-6.35	6.20-6.35	6.20-6.35	6.10-6.25	5.75-6.90	6.75
Paris	6¾-6⅞	6.25-6.35	-	6.43-6.58		6.45
Zurich	4⁷⁄₁₆-5	4½-4⅝	-	4⁷⁄₁₆-4⁵⁄₁₆	-	-
Amsterdam	6.06-6.12	5.83-5.98	-	5.78-5.76	-	-
Tokyo	2¹³⁄₁₆-2¹³⁄₁₆	-	-	-	-	-
Milan	8¹⁵⁄₁₆-9¹⁄₁₆	8⅞-8¹³⁄₁₆	-	8¹³⁄₁₆-9	-	-
Brussels	-	7⅞-8⅛	-	7½-7¾	-	-
Dublin	6¼-6⅜	6¼-6⅜	6¼-6⅜	6⁵⁄₁₆-6⁷⁄₁₆	6-6⅛	-

LONDON MONEY RATES

Nov 17	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	6	5¹³⁄₁₆	5¹³⁄₁₆	5⅝	5½	5½
Interbank Bid	5¼	5¹¹⁄₁₆	5¹¹⁄₁₆	5½	5⅜	5⅜
Sterling CDs	-	-	5¹¹⁄₁₆	5⁹⁄₁₆	5⁷⁄₁₆	5⁷⁄₁₆
Local Authority Deps.	5⅝	5⅝	5¹¹⁄₁₆	5⅝	5½	5⁷⁄₁₆
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	6½	5¹¹⁄₁₆	-	-	-	-
Company Deposits	-	-	-	-	-	-
Finance House Deposits	-	-	5⅝	5⅝	5¾	5¾
Treasury Bills (Buy)	-	-	5⁹⁄₁₆	5⅜	5⅛	-
Bank Bills (Buy)	-	-	5¹¹⁄₁₆	5⅝	5⅜	-
Fine Trade Bills (Buy)	-	-	-	-	-	-
Dollar CDs	-	-	2.98	3.08	3.17	3.44
SDR Linked Dep. Offer	-	-	4⅛	4¼	4⅜	4
SDR Linked Dep. Bid	-	-	4	3¹³⁄₁₆	4¹⁄₁₆	3⅞
ECU Linked Dep. Offer	-	-	7¹⁄₁₆	6⅞	6½	6⅜
ECU Linked Dep. Bid	-	-	6¹⁵⁄₁₆	6¾	6⅜	6

Treasury Bills (sell); one-month 5½ per cent; three months 5 per cent; six months 5 per cent; Bank Bills (sell): one-month 5½ per cent; three months 5⅜ per cent; Treasury Bills; Average tender rate of discount 5.0104 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day October 29, 1993. Agreed rates for period Nov 24, 1993 to Dec 25, 1993 Schemes II & III: 7.06 p.c. Reference rate for period Oct 1, 1993 to Oct 29, 1993, Scheme NSV: 5.820 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 6pc from November 1, 1993: Bank Deposit Rate for sums at 7 days notice 5⅜ p.c.; Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 2¾ p.c.; one-three months 5¼ p.c.; three-six months 5 p.c.; six-nine months 4¾ p.c., nine-twelve months 4½ p.c.; Under £100,000 2¾ p.c. from Jan.27, 1993, Deposits withdrawn for cash 1¼p.c.

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

the very least Russia is likely to need World Bank help if it is to proceed.

In the Ukraine, unable and

the WANO governing board and deputy general manager of Electricité de France, told the

fuels and other ... which the nuclear industry has little control.

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close November 17

Quotations in cents unless marked $

Sales	Stock	High	Low	Close	Chng
35631	AbitibP	$14	13¾	14	+⅛
95860	AgnEag	$19⅞	18½	19½	+⅝
315440	AirCda	$5⅝	5¼	5⅝	+⅛
37411	AlbtaEn	$20⅛	20	20	-⅛
979	AlbNG	$17¼	17⅛	17¼	-⅛
691099	AlcanAl x	$27½	25¾	26⅞	
461120	AmBarr	$38¾	37⅞	38½	
3500	AtcoCl1	$15½	15⅛	15½	
645119	BkMont	$26	25½	25⅝	-⅛
153273	BkNovS	$29¼	28⅞	29	-¼
20070	BCSugA	$10	9⅞	9⅞	-⅛
14533	BC Tel	$23⅜	22¾	23¼	-⅛
159534	BCE	$45¾	45½	45⅝	-⅛
8535	BCE Mo	$41¾	41½	41½	-¼
186700	Belmrt	14	13½	13½	
12642	BGR A	$13⅞	13¾	13¾	-¼
2200	BioChP	$14¾	14⅝	14⅝	
85387	BmbdrB	$18⅛	17⅞	18⅛	-¼
16350	BowVal	$15	14¾	15	-⅛
4727650	Bramlea	46	44	44½	
28900	BrscnA	$14¾	14½	14¾	
182000	Brkwtr	16	15	15	
6389	Brmcdr	u$23⅜	22	23½	+½
700	Brncwk	$7½	7¼	7½	
100750	CAE	$6⅜	6⅛	6⅜	+⅛
544548	Cmblor x	$20¼	19⅝	19⅞	-⅜
9776	CambSn	$18	17⅞	17⅞	-⅛
123745	Cameco	$25	24¾	25	
30912	CmpbRs	78	76	78	-2
285005	CanImp	$30⅝	30⅜	30⅝	-⅛
79672	CanOcc	$30⅞	30	30¼	-¼
928421	CanPac	$22¾	22⅛	22¼	-½
700	CanTir	u$20½	20	20½	+1
101165	CanTrA	$18¾	18⅜	18½	-⅛
52839	CanUtA x	$25⅝	25⅛	25¼	-⅜
5150	CanUtB x	$25¾	25⅜	25½	-¼
8500	CanTng	125	122	122	-3
625	CanGen	u$33½	33	33½	+¼
58919	Canfor	u$40	39½	39¾	-¼
448300	CanPcF	$18⅛	17⅞	18⅛	+¼
11200	CaraOp	485	475	475	-10
2700	Celan	u$59¾	59	59¾	
4211	CmCap	44	37	43	+5
39300	CineOd	415	400	410	+10
18300	CnsFdA	$6⅝	6½	6½	-⅛
89980	Cominco	$17½	16¾	17⅛	-½
74450	Cmptlg	315	305	310	-10
64755	CorelS	$45	42¼	42⅛	-2⅝
24420	Coscan	293	285	285	-8
358573	CrownxA	$6	5¾	5⅞	-⅛
35565	[illegible]	30	30	30	
113850	Dentan	$5⅛	5⅛	5⅛	
255135	Dofasc	$20¼	19⅞	20⅛	
16522	[illegible]	$9¾	9⅝	9⅝	-⅛
152115	Domtar	$7½	7⅜	7½	+⅛
200	DuPntA	$45	45	45	
150587	DylexA	$9¾	8¾	9¾	
[illegible]	Echo B	$16¾	16	16¾	+¼
110355	Emco	$9¼	9	9¼	+¼
7550	Empire	u$17¼	16⅞	17¼	+⅜
144432	EuroN	$44¾	43	44¾	
15450	FPI	350	345	350	+5
11950	Fanny	$11⅞	11⅛	11⅞	-⅛
5095	FcityA	$9½	9½	9½	-⅛
16750	Fcanng	$20	19½	20	-⅛
21830	FstMiA	$17	16¾	17	-⅛
3324	Fortis x	u$29¼	28⅞	28⅞	
19355	4Seasn	$15½	15¼	15¼	-¼
43534	Fr Nev	u$67½	64¾	67	+1½
17530	Gear C	$16¾	16½	16½	+⅛
600	[illegible]	$22	22	22	-¼
54265	Gentra	58	55	57	
14300	[illegible]	$8⅝	8¼	8½	
137430	GlcSt	$19	18¾	18⅞	-⅛
19850	Gmges	360	340	360	+5
15550	GWLif	$21½	21¼	21½	
33522	Gulf C	495	480	435	-5
900	GW Ut	$6	6	6	
250	HarlSA	$10¾	10¾	10¾	-⅛
1100	HawkSd	$26	25	26	+1
28851	Hees x	$12⅞	12⅞	12⅞	+.36
151125	HemloG x	$14⅛	13¾	13⅞	-⅛
65000	Hmg	$13⅞	13¾	13⅞	+⅛
30432	Hrn Gd	$18¾	18¼	18¾	+⅝
51030	Horshm	$19¾	19¼	19¾	-⅛
210	HydBMS	490	470	490	
99422	HudBay	u$40½	39⅞	39⅞	-1⅛
141204	Imasco	$40½	39⅞	40½	+⅜
58643	ImpOil	$46⅞	46¼	46¾	+⅜
340432	Inco	$31⅞	30¾	31½	+¼
7200	[illegible]	$8¼	8	8	
11500	[illegible]	$7⅜	7	7¼	-⅜
177500	IntPipe	12½	12	12	
172331	IntrPP x	u$31½	30¾	31	
15995	Ipsco	$43	42¼	42⅝	+⅛
13590	IvacoA	$6⅞	6¾	6⅞	+⅛
61200	[illegible]	$19½	19¼	19½	-⅛
2100	KerrAd x	$22¼	22	22¼	
12787	Labatt	$23⅝	23½	23⅝	+⅛
1034852	LacMin	$10⅝	10	10⅜	
100530	Lfarge	$27	27	27	
2000	LblawA	$9	8¾	8¾	-¼
145194	LblawB	$9	8⅞	9	+⅛
27700	LaurSv	$13⅞	13¼	13⅞	-⅛
500	LaurGp	$8	8	8	-⅛
123767	LawMdA	$12¾	12½	12⅝	-⅛
22500	Loblaw	$22	21¾	21¾	-⅜
869155	Macknz	$11¼	11	11	-⅛
1595390	MacmB	$12½	12¼	12⅜	-⅛
515250	MacmBl x	$21⅜	20⅞	21	-¼
26300	MagnaA	$59	58⅛	58⅜	-½
33100	MplLfd	$13⅜	13⅛	13¼	-⅛
12926	MarTgt	$24¾	24½	24⅝	-⅛
677091	MarkRs	$9⅛	8⅝	9	-⅜
3351	MDS B	$13⅝	13⅜	13½	-⅛
28500	Metall	$10¼	10¼	10¼	
39354	MidWal	$12¼	12	12¼	+⅛
158730	Mitel	$7⅞	7⅝	7¾	+⅛
56291	MolsnA	$27½	27⅛	27¼	-¼
42270	Moore	$27⅛	26⅝	27	
52200	Mosaich	45	44	45	
15100	NatBkC	$10⅜	10¼	10¼	
102764	Newbdg	$81½	75¼	76⅞	-8½
65825	Noma A	$6⅛	6	6⅛	+⅛
79542	NrndaF	u$12⅜	12⅛	12⅜	+⅛
245545	NrndaM	u$23⅞	23⅜	23⅝	-¼
38728	NorcnE x	$19⅞	18⅞	19⅛	-⅛
266459	NthTel	$36⅛	35⅛	36⅛	+1
11000	Ntngte	170	160	170	+5
719956	Nova	$9¼	9⅛	9¼	+⅛
73084	Nowsco	$20½	20⅛	20¼	-¾
36525	NumacE	$8⅜	8¼	8¼	-¼
4310	Onex	$17¾	17¼	17½	-⅜
6031	OshawaA x	$23⅞	23⅛	23⅞	+⅞
672485	PWA Cp	100	95	100	-4
64500	PagurA	290	280	290	+5
6910	PanCnP	$45⅜	44½	44½	-¾
117500	Pegsus	$27	26¼	27	-⅛
87919	PetCan	$13⅜	12⅝	12⅞	-⅜
191550	PhilEn	$7⅝	7½	7⅝	
8120	PionMt	36	25	26	
1191930	PlDome x	$32⅛	30¾	31½	
713601	Poco P	$8⅛	7¾	8	-⅛
131387	PowrCp	$19⅞	19½	19½	-⅜
1500	PowrFn	$30¾	30⅝	30⅝	-⅛
195575	RangOil	$7½	7¼	7⅜	-⅛
19000	Raytk x	u$16½	15½	16½	+½
1060	ReedSt	$25⅝	25⅝	25⅝	
42600	RenmS	u$24¾	24¾	24¾	
158130	Ren En	$28½	28	28⅛	-¼
61719	Repap	400	395	395	
521510	Rigel	$18½	d17¼	18½	+1¼
16522	RioAlg x	$19¼	19¼	19¼	-⅛
122266	RogCmB	$22½	21¾	22¼	-⅛
2330	Rothmn	$99	98	98	-1
210163	RoyBkC	$27⅛	26⅞	27⅛	+⅛
73925	RoyOak	$6⅛	5⅞	6⅛	
10100	StLwrA	u$10½	10¼	10½	+¼
265462	SceptR	$14	13⅝	13⅞	+⅛
200	ScotP	$10½	10½	10½	
4000	ScottH	$10¾	10¾	10¾	-⅛
139059	Seagrm	$36¼	35¼	35⅝	-⅜
49381	SearsC x	$9⅞	9¾	9¾	-⅛
13079	ShellA	$39⅜	38½	38½	-1
12344	SherrG	$8¾	8½	8½	
1043090	SHL Sy	$9¼	8¾	8⅞	-¼
109	SNC	$18⅞	18½	18½	-⅜
4600	Sonora	23½	17	23½	+3½
5700	Southm	$18⅛	18	18⅛	-⅛
23642	SparAe	$17¼	17	17⅛	-⅛
897362	StelcoA	$7¼	6¾	7	+¼
259992	TalleE	$29¼	28½	29	-¼
241100	Teck B	$20⅝	20	20½	-¼
23290	Telgib	$19¼	19	19½	-⅛
218019	Telus	u$15⅞	15⅝	15⅞	+⅛
686382	Thmsn x	$15⅝	16⅜	16⅝	+⅛
394280	TorDom	$20⅞	20½	20⅝	
10714	TrstrB	$24⅜	23½	24	-⅜
654540	TrscnP	$19½	19	19½	
261428	Trnlt	$15⅜	15¼	15⅜	+⅛
64165	Trimac	u$18¾	18½	18½	
418181	TrzecA	112	100	100	-11
2400	UAP A	$23¾	23½	23¾	+¼
526	UCorp	$34¼	34¼	34¼	
97888	UtdDom	$21¾	21⅝	21¾	
1000	Univa	$7⅝	7⅝	7⅝	-⅛
18520	Viceroy	$12⅝	12⅜	12⅜	-⅜
115817	Wcoast E	$21½	21⅛	21¼	-⅛
4244	WestnG	$40½	40	40¼	-⅛
700	WIC B	$16⅞	16⅞	16⅞	-⅛

I - No voting rights or restricted voting rights

MONTREAL

4 pm close November 17

Sales	Stock	High	Low	Close	Chng
46948	BioChP	$14¾	14¼	14⅝	-⅛
209222	BmbrdB	$18¼	17⅞	18⅛	-¼
177837	Cambior x	$20¼	19⅝	19⅞	-⅜
1700	CnMarc x	$14½	14½	14½	
22954	Cscade	$6½	6⅛	6⅛	-⅜
2760	GTC B	$12	11⅞	11⅞	
9400	JCoutu	$13	12⅝	12¾	-¼
12400	MtRich	$10¾	10⅝	10⅝	
45810	NatBkC	$10⅜	10¼	10¼	
10514	QbcorA	$18⅞	18⅞	18⅞	-¼
5750	Univa	$7¾	7⅝	7⅝	
54268	Vidtrn	$27¼	26⅝	26⅝	-⅛

Total Sales 32,652,500 shares

INDICES

NEW YORK

DOW JONES	Nov 16	Nov 15	Nov 12	Nov 11	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3710.77	3677.52	3684.51	3662.43	3710.77 (16/11)	3241.95 (20/1)	3710.77 (16/11/93)	41.22 (2/7/32)
Home Bonds	109.03	109.29	109.17	109.12	109.77 (28/10)	102.43 (11/1)	109.77 (28/10/93)	54.99 (1/10/81)
Transport	1759.95	1752.14	1752.07	1734.96	1759.92 (16/11)	1453.54 (4/1)	1759.96 (16/11/93)	12.32 (8/7/32)
Utilities	236.40	232.45	234.95	233.97	256.46	217.14	256.46	10.50

	Nov 17	Nov 16	Nov 15	Nov 12	1993 HIGH	1993 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	2104.3	2083.8	2082.9	2074.0	2132.40 (1/11)	1495.00 (13/1)
All Mining (1/1/80)	879.6	876.4	873.4	870.4	904.50 (2/8)	584.70 (13/1)
AUSTRIA						
Credit Aktien (30/12/84)	417.88	416.26	415.42	413.31	424.59 (2/11)	300.28 (14/1)
Traded Index (2/1/91)	1073.49	1067.6	1064.34	1052.81	1094.43 (2/11)	712.06 (15/1)
BELGIUM						
BEL20 (1/1/91)	1397.76	1375.92	1378.33	1369.47	1397.76 (17/11)	1125.46 (4/1)
WORLD						
M.S. Capital Intl (1/1/70) $	594.9*	597.6	598.3	597.3	607.10 (15/10)	488.60 (13/1)
Euro Top-100 (26/6/90)	1151.49	1141.1	1143.28	1138.8	1175.45 (22/10)	862.73 (13/1)

**Saturday November 13: Taiwan Weighted Price; (c), Korea Comp Ex: 796.65.
♥ Subject to official recalculation. *Calculated at 15.00 GMT

Base values of all Indices are 100 except Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX - 1,000, JSE Gold - 255.7, JSE 25 Industrials - 264.3 and Australia All Ordinary and Mining - 500; (c) Closed (u) Unavailable

... NYSE All Common - 50; Standard and Poor's - 10; and Toronto ... Indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ ... Transportation. (c) Closed (u) Unavailable. ♠ The DJ Ind. Index theoretical ... of the highest and lowest prices reached during the day by each stock; ... (supplied by Telekurs) represent the highest and lowest values that the ... figures in brackets are previous day's). ♥ Subject to official recalculation.

TOKYO - Most Active Stocks

Wednesday, November 17, 1993

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	6.8m	327	-7
Daikyo Inc	2.9m	876	-70
Kawasaki Steel	2.8m	321	-3
Hitachi	2.2m	800	
Bank Yokohama	1.9m	1,050	-20
Fujitsu	1.8m	818	-8
Toshiba Corp	1.8m	665	-4
Hitachi Zosen	1.8m	525	
Nomura Sec	1.6m	1,900	-20
NKK Corp	1.6m	250	-2

4 pm close November 17

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg'e Prev. Close
14⅝	11½	AAR	0.48	3.6	62	183	13½	13¼	13¼	-¼
29⅝	13¾	A L Labs A	0.18	1.3	37	558	14⅛	d13½	13½	-⅝
67¼	54⅝	AMP	1.60	2.7	21	2327	60⅛	58⅝	59⅝	-⅝
72¾	55½	AMR			55	3780	71¾	69¼	69⅞	-1⅝
3⅞	1⅞	ARX			14	198	3½	3¼	3½	+⅛
51½	28⅞	ASA	2.00	4.1	32	1661	49¼	45¾	49⅛	+1
30¾	22⅝	AbbtL	0.68	2.4	17	11954	29½	28¾	28⅞	-½
12⅝	8¼	Abitibi Pr	0.50	4.7	6	55	10¾	10⅝	10¾	
15⅝	8¼	Acpincsin			20	1702	12½	12⅛	12⅜	+¼
36	25½	ACE Ltd	0.92	3.0	5	2048	30⅝	30	30¼	-⅛
12	10¾	ACM Gvt In	0.96	8.1		277	11⅞	11⅞	11⅞	+⅛
10⅛	9⅛	ACM GvOpp	0.80	8.4		43	9⅝	9½	9½	-⅛
10⅛	8¾	ACM Gvt Sp	0.80	8.7		346	9⅛	9¾	9⅞	
11⅝	10½	ACM Gvt Sc	0.96	8.4		609	11½	11⅜	11⅜	
11⅞	9⅝	ACM Man	1.08	9.3		38	11¾	11⅝	11⅝	-⅛
9⅞	8⅝	ACM Managd	0.72	7.8		106	9¼	9⅛	9¼	+⅛
12¾	7¾	AcmeClv	0.44	4.4	13	667	10¼	10	10	-½
11⅜	8⅜	Acme Elect			39	18	8⅞	8¾	8¾	
27⅝	18⅜	Acordia	0.44	2.0	12	515	22⅛	21¾	21¾	
16	10⅜	Acuson			63	726	14⅛	13¾	14	
21¾	18⅛	Adams Expr	0.48	2.6	0	210	18¼	d18⅛	18¼	
66¼	45½	Ad Micro	3.00	6.1		159	49¾	48½	48⅞	-⅝
32¾	17⅝	AdvMic	3.00	15.8	7	4239	19⅝	18⅞	19	-½
8⅛	5½	Advest Grp	0.16	2.2	12	78	7⅛	7	7⅛	
24¾	14¼	Advo Inc	0.08	0.5	73	117	15¾	15½	15½	
51¾	41⅛	Aegon ADR	1.23	2.4	10	33	50¼	49¾	50⅛	+¼
66¼	49⅝	AetnaL	2.76	4.6	25	1402	61⅛	60	59¾	-1⅛
34	26⅛	Aflac	0.40	1.5	12	3134	27¼	26⅞	27	-¼
22⅛	16¾	Ahmnsn	0.88	4.9	8	2078	18¼	17⅝	18	-⅛
7¾	3⅝	Aileen Inc			7	377	5¾	5⅜	5⅝	+¼
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the very least Russia is likely to need World Bank help if it is to proceed.
In the Ukraine, unable and

Mr ... the WANO governing board and deputy general manager of Electricité de France, told the

fuels and other ... which the nuclear industry has little control.

4 pm close November 17

NYSE COMPOSITE PRICES

1993 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
Continued from previous page										
25⅞	16⅞	Safeg'd Sc			11	34	u25⅞	25⅝	25⅝	-¼
24¾	13⅛	SlfyN	0.36	2.7	28	753	13½	13⅜	13⅜	-⅛
22¼	10⅞	Safeway			26	4322	21¼	21⅛	21¼	+⅛
5¼	2	SafewayW96				162	4⅞	4¾	4⅞	+⅛
55	37½	StJoePaper	0.20	0.4	271	87	51⅞	51½	51½	-⅛
37⅞	31	StJosL&P	1.76	5.7	12	10	31¼	d31	31	
98	75	StPaul	2.80	3.1	14	435	90¼	89	89¼	-1⅛
11⅞	7⅛	Salant Crp			9	14	8	7¾	7¾	-⅛
75¼	39⅞	Sallie Mae	1.20	2.7	9	3594	45½	44⅜	44½	-1
14⅜	13	Salomon Br x	0.32	2.5		1535	13⅛	d12¾	12¾	-1/16
51⅞	34	Salomn	0.64	1.5	10	1281	44	43½	43¾	
27¾	23¾	SaDgGE	1.48	6.0	13	807	24⅞	24⅝	24⅝	-⅛
5	3½	SantaFeEDu	0.40	8.2	48	10	4⅞	4⅞	4⅞	
11⅞	9⅛	SantaFeERs	0.16	1.6	333	1303	10	9¾	10	
40¾	35¾	SantaFePac	2.80	7.4	18	50	38¼	37⅜	37¾	-¼
21⅞	12¾	SanFeP	0.10	0.5	8	3428	21	20¼	20⅜	-⅝
31⅛	21	SaraLee	0.58	2.1	19	3909	27⅝	27⅛	27⅜	-⅛
52¼	40⅛	Scana Corp	2.74	5.6	13	276	49⅛	48¾	49	-¼
25¾	20	Scecrp	1.42	6.9	13	5383	20¾	20½	20½	-⅛
36⅞	23⅞	SchererRP			27	329	33⅝	33⅛	33½	+⅛
71	51¾	SchrPl	1.80	2.7	16	5048	67¾	66⅜	67½	
68⅞	55⅞	Schlmb	1.20	1.9	24	8825	62½	60¼	62	+1
38⅛	18½	Schwab(C)	0.20	0.6	16	2640	33⅛	32⅜	32¾	-¼
7⅜	5⅝	Schwitzer			98	13	6⅞	6¾	6¾	
38⅞	17¾	SciAtl	0.12	0.4	47	1744	32½	31	31¼	-1¼
13⅞	9⅛	Scotmen	0.10	0.8	12	3	12¾	12¾	12¾	
41	31	ScottP	0.80	2.1	23	2252	38¼	37⅝	37¾	-½
29⅞	14¾	ScuddrNAsF	0.21	0.8		77	25	24⅞	24⅞	+⅛
11⅛	7½	ScuddrNEuF	0.16	1.6		1198	10⅛	9⅝	10	+⅜
31½	16¾	SeaCnB	0.70	3.9	8	10	18	17½	17¾	-¼

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Price data supplied by Telekurs

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AMEX COMPOSITE PRICES

4 pm close November 17

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NASDAQ NATIONAL MARKET

4 pm close November 17

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AMERICA

Profit-taking erodes gains in US stocks

Wall Street

INVESTORS took some profits yesterday, after Tuesday's record-breaking gains, to leave US share prices slightly lower across the board at the halfway stage, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones Industrial Average was down 5.59 at 3,705.18. The more broadly based Standard & Poor's 500 was down 1.50 at 465.24, while the Amex composite was 1.58 lower at 473.15, and the Nasdaq composite down 4.36 at 767.33. Trading volume on the NYSE was 180m shares by 1 pm.

The markets opened weaker, with the Dow posting double-digit losses in the first hour of trading as investors took the opportunity to book some of the profits earned on the previous day, when the Dow broke through 3,700 for the first time in its history.

The main attention of dealers and investors remained the Nafta vote in Congress, which was scheduled for late last night.

Since the weekend hopes have been rising that the House of Representatives will vote to approve the trade pact, but there was enough uncertainty surrounding the final outcome to persuade many participants in the markets to stay on the sidelines until after the result was known.

Bond prices were higher in early trading, which provided some support for stocks, but the Treasury gave back most of its gains soon after midday. In early afternoon trading the yield on the benchmark 30-year bond was little changed at 6.15 per cent.

Among individual stocks, Philip Morris fell $1½ to $55⅞ and RJR Nabisco dropped $⅜ to $6¾ in heavy trading after the broking house Merrill Lynch cut its ratings on the two stocks from "neutral" to "below average". American Brands, the other main cigarette producer, fell $⅞ to $34⅝ in sympathy.

An upgrade from Merrill Lynch, however, lifted IBM, which added $⅞ to $53⅝ as the broking house's computer industry analyst rated the stock a long-term "buy".

Hong Kong Telecom ADRs fell $4⅝ to $57⅞ as investors reacted to the news that Morgan Stanley had recommended to clients that they reduce their weighting in Hong Kong stocks in the wake of the big gains the colony's market has recorded over the past few months.

Auto stocks were firmer in the wake of recent strong car and truck sales data. General Motors rose $⅞ to $53⅞, Ford firmed $¼ to $62⅞ and Chrysler put on $⅞ at $56⅛.

MEXICAN equities fell back slightly in early trading after their recent record gains, with some profits being taken in Telmex. The IPC index was down 16.03 at 2,143.32 in turnover of 363m pesos.

Investors were also cautious as they awaited last night's Nafta vote in the US.

Canada

TORONTO was lower at noon with investors apprehensive ahead of last night's Nafta vote in the US. The TSE-300 composite index fell 27.65 to 4,229.58 in volume of 32.18m shares.

Of Toronto's 14 sub indices, only transport and mining managed to post gains. Among gold stocks, Lac Minerals dropped C$⅜ to C$10.

SOUTH AFRICA

INDUSTRIALS extended Tuesday's gains, rising 105 to 4,797 as golds fell 53 to 1,897, sliding sharply near the close as the precious metal dipped to $370/71 an ounce. The overall index climbed 38 to 4,164.

EUROPE

Austerity package helps Brussels to record high

A number of themes attracted attention yesterday in the absence of Frankfurt, which was closed for a holiday, *writes Our Markets Staff.*

BRUSSELS finished at a record high following a cut in two leading interest rates and the announcement by the government of its new austerity measures. The Bel-20 index added 21.84 to 1,397.76, but was off an intraday high of 1,406.42.

Turnover was some BFr4bn.

The government's plans included measures to control social spending, slow increases in wages and control unemployment. Among the day's performers, Petrofina rose BFr130 or 1.3 per cent to BFr9,880 and Solvay BFr150 or 1 per cent to BFr14,525.

AMSTERDAM fell back towards the close, with the CBS Tendency index closing down 0.6 at 137.0, after a day's high of 138.8.

KLM was again among the most active, slipping Fl 1.70 to Fl 38.60 on continued uncertainty about the Alcazar talks, and reports of further rumours concerning the choice of a US partner by the four European airlines involved.

Nedlloyd, the shipping group, hit a new year's high during the session on unconfirmed reports that Far Eastern container tariffs were to be increased. The shares finally settled up Fl 1.40 at Fl 51.30.

Polygram also hit a new intraday high for the year, Fl 77.10, as more buyers came into the market, partly as a result of the developing interest multimedia. The shares finally closed up Fl 1.20 at Fl 76.30.

Elsewhere, Nutricia, the food group, saw its price tumble 7 per cent after it said that it was recalling one of its products. The shares closed down Fl 11.00 at Fl 136.80.

PARIS was lifted by hopes of an interest rate cut, and by a stronger bond market. The CAC-40 index put on 33.14 or 1.5 per cent to 2,147.99.

More turnover figures were released to whet the appetites of investors, while Lyonnaise des Eaux-Dumez added FFr12 to FFr538, helped by news that it had won a FFr400m US contract.

Three new additions made their entry to the index yesterday, BNP, CLF and Promodes, showing respective losses of FFr4.30 to FFr294.30, FFr6 to FFr479 and FFr31 to FFr1,169. These companies replace Cap Gemini, Chargeurs and Club Med, and thereby increase the market's total capitalisation by some 5 per cent.

FT-SE Actuaries Share Indices									THE EUROPEAN SERIES
November 17									
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close	
FT-SE Eurotrack 100†	1362.16	1362.42	1363.93	1364.56	1365.29	1365.22	1364.66	1363.56	
FT-SE Eurotrack 200†	1422.53	1421.27	1424.61	1424.28	1424.78	1424.82	1423.09	1422.11	
	Nov 16	Nov 15	Nov 12	Nov 11	Nov 10				
FT-SE Eurotrack 100	1353.29	1347.91	1339.42	1335.92	1334.90				
FT-SE Eurotrack 200	1418.29	1413.86	1402.18	1403.42	1401.18				

Base value 1000 (26/10/90) Highday: 100 - 1366.20; 200 - 1425.77 Lowday: 100 - 1361.71 200 - 1420.61 †Partial.

MADRID was lifted by Wall Street and interest rate hopes, but its sheer buoyancy brought profit-taking and the general index closed off its best at 306.93, up 4.00, or 1.3 per cent.

Turnover rose from Pta29.4bn to Pta43.2bn. The best gains came in electrical utilities, where Endesa gained Pta170 to Pta6,530 and Iberdrola, the most active stock of the day, rose Pta18 to Pta879. In banks, Argentaria closed Pta150 lower at Pta5,280 after setting the price for its second share offer overnight at Pta6,050 per share.

MILAN rallied late to finish higher on the first day of the new account, and the Comit index adding 3.23 at 537.36.

Banks were firm, helped by a short selling ban on stock in Credito Italiano ahead of the announcement of the privatisation price on December 4. Credito added L103 to L2,460, for a cumulative two-day rise of 9.2 per cent, while BCI was L227 ahead at L4,378.

Telecoms picked up after Tuesday's pressure. Sip added L111 to L3,121 and Stet was L73 higher at L3,644. Sme, the retailer rose L116 to L3,755, after a day's high of L3,990, on speculation about an offer for divisions which have not yet been privatised.

Mediobanca, trading ex-dividend and launching its rights issue, rose L153 to L11,519. Ifil, also launching its capital increase, rose L21 to L4,555.

ZURICH was steady in moderate volume, awaiting the outcome of last night's Nafta vote. The SMI index eased 1.3 to 2,711.1.

UBS bearers, up SFr11 at SFr1,296, were helped by the bank's optimistic statement on the outlook for this year and 1994. A SFr17 rise to SFr1,405 in Zurich Insurance registered shares was attributed to a new option issue and expiry of an old one.

Foreign demand for cyclicals took BBC Brown Boveri up SFr11 to a year's high of SFr1,029. Alusuisse registered shares rose SFr9 at SFr622.

STOCKHOLM's advance was helped by a rally in Electrolux, the B shares gaining SKr18 at SKr305 on a 30 per cent rise in nine month profits. The Affärsvärlden general index rose 11.2 to 1,399.7. OSLO rose in the wake of gains in domestic bonds, and a rise in the dollar which was good for exporters and oil stocks. The all share index rose 8.53 to 608.55.

Written and edited by William Cochrane, John Pitt and Michael Morgan.

ASIA PACIFIC

Hang Seng dives in London as New Zealand recovers

Tokyo

INVESTORS failed to respond to Tuesday's approval of the political reform bill by a lower house parliamentary committee, and share prices moved lower in thin trading, *writes Emiko Terazono in Tokyo.*

The Nikkei average lost 134.41 at 18,108.71 on arbitrage linked selling after moving between 18,030.80 and 18,344.23. Volume was 216.5m shares, against 264m. Falls led rises by 624 to 320, with 195 issues unchanged, and the Topix index of all first section stocks shed 8.52 to 1,540.82. In London the ISE/Nikkei 50 index rose 1.18 to 1,245.01.

Traders said fears of a plunge in share prices had eased to some extent: the Topix index has not fallen far below the 1,530 level, currently regarded as a technical support point. Many investors are now focusing on whether Mr Morihiro Hosokawa, the prime minister, will announce any economic support measures during his meeting with President Bill Clinton on Friday.

However, Mr Alex Kinmont, a strategist at Morgan Stanley, warned that technical factors were still dampening sentiment, and said the Topix could fall by another 10 per cent: "Although underlying political fundamentals may improve, shares still face pressure from arbitrage selling."

Analysts reckon that arbitrageurs still hold up to 10 per cent of outstanding shares of some stocks in arbitrage positions, which will need to be sold in order to switch from the Nikkei 225 to the new 300.

Among the big blue chips, East Japan Railway closed unchanged at Y458,000, while Nippon Telegraph and Telephone fell Y10,000 to Y781,000.

Profit-taking depressed bank shares, which rose on index-linked buying on Tuesday. Industrial Bank of Japan fell Y10 to Y3,280, Dai-Ichi Kangyo Bank Y20 to Y2,260 and Sumitomo Bank Y20 to Y2,340.

Large-capital issues were lower. Nippon Steel, the day's most active stock, slipped Y7 to Y327 and NKK Y3 to Y250.

Daikyo closed Y70 down at Y876 on further selling following an announcement earlier this week that it would post its first pre-tax loss ever for the full year to March.

Daishowa Paper dropped Y49 to Y991. The company's share price has been suffering since Mr Ryoei Saito, its ex-chairman, was arrested, allegedly for bribing politicians.

Autobacs Seven, an auto-parts maker, was the day's best performer, rising Y300 to Y13,400 due to the popularity of its car navigation systems.

In Osaka, the OSE average dipped 154.42 to 20,290.18 in volume of 15.2m shares. Nintendo, the video game maker, weakened Y90 to Y7,170.

Roundup

WALL Street's overnight advances were lost on the Hong Kong market.

HONG KONG took profits in its own time, the Hang Seng index falling by 176.67, or 1.8 per cent, to 9,506.98. Turnover contracted from HK$9.08bn to HK$8.04bn and professionals said that selling pressure was not heavy.

However, London heard that Mr Barton Biggs, the Morgan Stanley strategist, had moderated his support for Hong Kong, and some said that the colony's weighting in the broker's global model portfolio had been cut by a couple of percentage points from its recent 7.2 per cent. The indicated Hang Seng fell a further 322, or 3.4 per cent, to 9,185, and there were fears of worse to come when the domestic market opens today.

NEW ZEALAND recovered as the National party government gained one seat to give it 50 seats in New Zealand's 99-seat parliament. The NZSE-40 index finished 95.7 or 4.8 per cent, higher at 2,074.4.

Mr John Rattray at Ord Minnett said demand came from both foreign and domestic clients. Turnover was high at NZ$90m, but not excessive.

Among market leaders, Telecom, which represents 25 per cent of the index, closed 24 cents stronger at NZ$4.17 in good volume; and Brierley, which dropped plans for a controversial executive share scheme at its annual meeting on Tuesday, firmed 3 cents to NZ$1.19.

AUSTRALIA bid strongly for banks as the All Ordinaries index moved forward 20.5 to 2,104.3.

The market reassessed Tuesday's profits from ANZ and, although net earnings of A$246.5m were at the lower end of expectations, the shares eventually closed 29 cents, or 6.5 per cent, up at a year's high of A$4.73.

SINGAPORE ended off the day's highs, but with the Straits Times Industrial index still 18.50 better at 2,096.51.

SEOUL saw individual investors pile in following institutional buying and the composite index closed 7.52 higher at 810.17. The financials index, however, declined 10.04 to 898.36 as investors avoided its highly priced constituents.

JAKARTA attained another 1993 high as the JKSE index rose 9.99 to 538.18. Here, banking stocks led the way, Bank Danamon putting on Rp500 at Rp5,400 and Bank Duta Rp(?) at Rp5,750.

TAIWAN came off intraday session highs on a round of late profit-taking. The weighted index lost a net 5.99 at 4,306.91, after reaching 4,346.66.

KUALA LUMPUR picked up slightly in uncertain trading, the composite index rising by 6.51 to 957.61.

Rothmans firmed M$1.70 to M$18.80 on approval of a restructuring plan from the Government and Securities Commission.

KARACHI fell back as investors took profits after the market's recent record run. The KSE index was finally down 21.49 at 1,760.51, after a day's low of 1,746.27.

Mexico waits for news from Capitol Hill

By John Pitt

Attention has remained firmly fixed throughout the week on the political machinations which have been taking place on Capitol Hill, Washington.

However, while it was by no means clear earlier yesterday that President Bill Clinton and his administration had gathered enough votes to ensure that the North American Free Trade Agreement would win US congress approval, the Mexican equity market has behaved as though last night's vote was a formality.

On five successive days Mexico's IPC index has reached record levels. But data supplied by the IFC tells a slightly different story: the country recorded a modest gain in dollar terms on the week, its improvement on the year to date standing at just above 16 per cent, similarly restrained in comparison to gains elsewhere in the region and the world.

Pakistan, for instance, saw the week's best performance as investors responded to an improved political climate, while Thailand also moved on.

● China and Zimbabwe have been added to the IFC data from this week.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms Nov 12 1993	% Change over week	% Change on Dec '92	Local currency terms Nov 12 1993	% Change over week	% Change on Dec '92
Latin America							
Argentina	(11)	835.12	+7.7	+44.0	512,449.79	+7.7	+44.3
Brazil	(44)	231.51	+8.4	+85.2	63,014,156.83	+17.1	+2,921.8
Chile	(20)	470.37	+2.5	+12.4	773.21	+2.2	+20.6
Colombia[1]	(8)	517.93	-0.0	+21.8	744.00	-0.7	+21.7
Mexico	(58)	785.94	+2.6	+16.3	1,095.06	+6.5	+20.6
Peru[2]	(7)	107.91	-2.7	+7.9	143.55	-2.1	+43.6
Venezuela[3]	(8)	569.86	+0.2	+9.7	1,311.99	+0.9	+40.5
East Asia							
China[4]	(16)	116.21	+5.1	+15.2	127.64	+5.0	+27.6
South Korea[5]	(130)	106.14	+1.2	+8.1	112.37	+1.0	+10.4
Philippines	(11)	241.87	+0.9	+81.0	324.32	-3.1	+100.6
Taiwan, China[6]	(76)	88.22	+0.4	+19.6	88.10	+0.9	+26.3
South Asia							
India[7]	(61)	95.44	+5.1	+1.8	105.54	+5.1	+10.5
Indonesia[8]	(31)	105.29	+1.8	+79.4	119.76	+1.5	+82.1
Malaysia	(61)	280.32	+3.0	+71.4	263.64	+2.6	+67.1
Pakistan[9]	(8)	302.86	+9.9	+51.3	411.24	+9.9	+77.4
Sri Lanka[10]	(5)	164.25	+5.9	+64.2	175.99	+5.9	+76.0
Thailand	(52)	398.92	+7.8	+73.2	401.69	+7.9	+72.3
Euro/Mid East							
Greece	(17)	215.85	-0.8	+10.5	352.81	-1.3	+23.9
Jordan	(5)	164.92	+0.4	+41.2	238.17	+1.1	+43.6
Portugal	(16)	112.60	+2.2	+46.0	133.29	+1.2	+71.0
Turkey[11]	(31)	178.28	+2.0	+166.6	1,110.90	+4.4	+314.2
Zimbabwe[12]	(12)	178.76	-3.6	n.a.	186.32	-3.0	n.a.

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1984=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec31 1992; (11)Aug4 1989; (12)July 2 1993.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY NOVEMBER 16 1993: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY NOVEMBER 15 1993: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 1993 High	1993 Low	Year ago (approx)
Australia (69)	155.49	+0.8	155.19	104.73	137.59	167.15	+0.2	3.30	154.25	153.53	103.84	135.53	156.79	162.83	117.39	108.41
Austria (17)	173.81	-0.4	173.47	117.07	153.80	153.37	+0.3	1.03	174.44	173.64	117.44	153.27	152.90	184.47	131.16	139.44
Belgium (42)	151.58	-0.1	151.29	102.09	134.13	134.95	-0.1	4.27	151.74	151.04	102.15	133.32	135.09	156.76	131.19	135.14
Canada (107)	133.77	-0.2	133.51	90.09	118.38	127.52	-0.6	2.62	134.01	133.38	90.21	117.73	128.33	135.54	111.41	111.36
Denmark (32)	235.56	-1.0	235.10	158.66	208.44	216.66	-0.8	1.05	237.99	236.89	160.22	209.11	218.33	241.06	185.11	200.46
Finland (23)	121.55	+1.7	121.31	81.87	107.55	148.81	+1.6	0.70	119.51	118.96	80.46	105.00	146.53	128.99	65.50	66.89
France (98)	163.54	-0.2	163.22	110.14	144.70	151.23	+0.2	3.07	163.82	163.06	110.28	143.92	150.97	173.05	142.72	144.87
Germany (60)	132.48	+0.3	132.22	89.24	117.22	117.22	+1.0	1.81	132.11	131.49	88.95	116.07	116.07	136.13	101.59	105.84
Hong Kong (55)	394.00	-0.1	393.22	265.36	348.65	390.78	-0.1	2.80	394.34	392.51	265.47	346.49	391.12	394.34	218.82	247.39
Ireland (14)	175.46	-1.1	175.12	118.18	155.26	176.41	-0.6	3.21	177.34	176.52	119.39	155.81	177.47	177.89	129.28	122.98
Italy (70)	61.20	-1.7	61.08	41.21	54.15	76.05	-1.7	2.20	62.27	61.98	41.92	54.71	77.38	78.93	53.78	62.60
Japan (469)	146.95	+0.7	146.67	98.98	130.05	98.98	+0.7	0.83	146.00	145.32	98.28	128.29	98.28	165.91	100.75	98.23
Malaysia (69)	467.78	-1.7	466.87	315.05	413.91	458.86	-1.7	1.52	475.79	473.58	320.29	418.03	466.72	437.72	251.66	276.66
Mexico (19)	1900.17	+1.4	1896.44	1279.80	1681.39	6648.14	+0.9	0.74	1874.84	1866.14	1262.15	1647.28	6590.26	1900.17	1410.30	1477.27
Netherland (26)	189.86	-1.1	189.49	127.87	168.00	165.47	-0.5	3.20	191.99	191.10	129.25	168.69	166.27	197.07	150.39	150.23
New Zealand (13)	59.22	-1.2	59.10	39.89	52.40	58.27	-1.4	3.90	59.93	59.65	40.35	52.66	59.07	68.38	40.56	38.77
Norway (23)	176.85	+0.4	176.50	119.11	156.49	177.03	+0.9	1.44	176.16	175.35	118.60	154.79	175.51	185.10	137.71	129.64
Singapore (39)	309.95	-1.0	309.34	208.76	274.26	227.18	-1.2	1.41	313.01	311.56	210.72	275.01	229.85	332.55	207.04	197.46
South Africa (60)	223.52	+2.7	223.08	150.54	197.78	209.34	+0.6	2.57	217.69	216.68	146.55	191.27	208.17	223.52	144.72	140.47
Spain (42)	138.03	+0.7	137.76	92.97	122.13	143.52	+0.7	4.12	137.11	136.47	92.30	120.47	142.56	145.24	115.23	111.25
Sweden (36)	195.34	-1.5	194.96	131.57	172.85	238.14	-1.0	1.47	198.26	197.34	133.47	174.20	240.53	208.92	149.70	154.91
Switzerland (50)	146.16	-0.6	145.87	98.45	129.35	135.78	-0.1	1.60	147.06	146.38	99.01	129.23	135.94	148.18	108.91	103.15
United Kingdom (218)	186.43	-0.1	186.07	125.55	164.95	186.07	+0.1	3.86	186.68	185.81	125.66	164.01	185.81	193.97	162.00	161.97
USA (518)	190.16	+0.7	189.79	128.08	168.27	190.16	+0.7	2.72	188.91	188.04	127.18	165.99	188.91	191.56	175.38	171.49
Europe (751)	157.25	-0.3	156.95	105.91	139.16	151.82	+0.1	2.99	157.69	156.96	106.16	138.55	151.68	162.97	133.92	131.97
Nordic (114)	186.23	-0.8	185.87	125.43	164.79	196.88	-0.5	1.27	187.80	186.33	126.43	165.01	197.84	194.54	142.13	144.86
Pacific Basin (714)	155.79	+0.5	155.49	104.93	137.86	109.26	+0.5	1.10	154.98	154.26	104.34	136.17	108.68	168.80	105.89	103.47
Euro-Pacific (1465)	156.29	+0.2	155.98	105.26	138.29	126.16	+0.4	1.89	155.99	155.27	105.01	137.05	125.72	162.86	117.26	115.00
North America (625)	186.64	+0.6	186.28	125.72	165.18	185.87	+0.6	2.71	185.49	184.62	124.88	163.00	184.75	187.68	171.51	167.76
Europe Ex. UK (533)	138.49	-0.4	138.22	93.29	122.57	131.45	+0.1	2.44	139.00	138.35	93.59	122.15	131.36	143.73	112.51	113.59
Pacific Ex. Japan (245)	241.12	-0.2	240.65	162.42	213.38	224.12	-0.4	2.64	241.65	240.53	162.71	212.35	225.03	245.12	152.70	155.02
World Ex. US (1651)	157.40	+0.2	157.10	106.02	139.29	128.72	+0.3	1.90	157.04	156.31	105.73	137.98	128.29	162.89	118.51	115.99
World Ex. UK (1951)	165.48	+0.5	165.15	111.46	146.44	143.97	+0.5	2.04	164.73	163.97	110.91	144.76	143.27	168.66	134.22	131.11
World Ex. So. Af. (2109)	167.04	+0.4	166.72	112.52	147.82	147.23	+0.5	2.21	166.42	165.65	112.05	146.24	146.56	170.46	137.29	133.86
World Ex. Japan (1700)	179.92	+0.3	179.56	121.19	159.23	176.28	+0.4	2.78	179.40	178.57	120.78	157.65	175.65	181.67	157.47	153.80
The World Index (2169)	167.33	+0.4	167.00	112.70	148.08	147.77	+0.5	2.21	166.67	165.90	112.21	146.45	147.09	170.68	137.32	133.80

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the very least Russia is likely to need World Bank help if it is to proceed.

In the Ukraine, unable and

Mr Henry ... the WANO governing board and deputy general manager of Electricité de France, told the

fuels and other ... which the nuclear industry has little control.

China's economic reforms have brought huge changes and excited investors around the world, but as **Tony Walker** reports from Beijing, the biggest tests are yet to come

Crucial stage of the reform programme

CHINA stands today at the threshold of a new and more testing phase in the gargantuan task of bringing a creaking centrally planned economy into the modern era.

The country's second revolution, launched 15 years ago by Mr Deng Xiaoping, has wrought a remarkable transformation, both in improved living standards and in relations with the outside world.

But challenges abound. Not least of these lie in deepening the reforms that have brought China in little more than a decade from poverty and backwardness to being viewed as the world's next economic superpower.

Such claims may be premature in a country whose vast population remains predominantly peasant farmers. However, China's opening to the outside world has kindled extraordinary enthusiasm among foreign investors.

In the first three quarters of this year $15bn was actually invested by foreigners, and $83bn pledged in new contracts, according to official figures. Utilised foreign investment now stands at $52bn since China's opened its doors to foreign business in 1979.

For all these promising indications, China, burdened by an unwieldy and impoverished state sector, is still far from achieving its goal of creating a an orderly market economy as it moves to the next, more complex, stage of its reforms.

These will be aimed at better regulating the raw entrepeneurial energies that have been unleashed and – perhaps more important – reasserting central control over increasingly unruly provinces where powerful local officials have been carving out their own small empires.

Mr Deng could hardly have anticipated the monumental changes that have overtaken China in the years since the *third plenary session of the* eleventh Central Committee in December 1978, when the reform drive was launched. But the words employed then have an historic resonance now. *Casting off the burden of* Maoist dogma, the party demanded "great growth in the productive forces," and observed prophetically that the modernisation of China would prove to be a "profound and extensive revolution."

The 89-year-old and enfeebled Mr Deng has remained true to those sentiments, arguing recently for a renewed commitment to growth even as his lieutenants were seeking to rein in a runaway economy growing at 13 per cent this year for the second year running.

THE veteran communist, whose exhortation last year to "do it faster" prompted an explosion of commercial endeavour, may go down in history as one of the great advocates of accelerated economic activity to deal with potential political problems. Chinese leaders need look no further than across the Russian border to be reminded of the costs of economic stagnation.

The reformers have already *travelled further down the* road of economic change than even the greatest optimists might have predicted. However, the next steps, including an overhaul of the banking system, far-reaching reforms of the tax regime, further trade liberalisation, and creative approaches to dealing with debt-ridden state enterprises, will require persistence and nerve.

Among the *most critical* tasks is to arm institutions like the People's Bank, the country's central bank, with the authority to assert reasonable control over the economy, and thus help China avoid the wild fluctuations from "boom" to "bust" that have bedevilled the reform phase.

China also has to find ways to ensure that adequate funds reach priority areas such as infrastructure. Serious bottlenecks in transport along with inadequate power supplies are a drag on economic activity.

In some ways this second stage of China's "second revolution" may prove more difficult politically than the first. Reform of state enterprises is already falling foul of powerful vested interests at the centre and in the provinces.

Mr Zhu Rongji, the reforming vice premier in charge of the economy, was obliged to ease credit restrictions in August and September after he had sought in mid-year to impose stricter discipline on loss-making industries.

The episode raised doubts about the longer-term integrity of the anti-inflation fight, and also emphasised just how difficult is the task of enterprise reform.

Details of the new reform programme were endorsed at a meeting of the Central Committee held in Beijing this month. This was the Third Plenum of the Fourteenth Central Committee of the Chinese Communist Party, and officials, with an eye to history, drew bold comparisons with the Third Plenum of 1978.

They hoped that in the same way this latest event would act as a springboard for reform. It was also aimed at bolstering the reforming consensus among Party leaders lest any might be entertaining ideas of backsliding once Mr Deng goes to "meet Karl Marx" – his euphemism for death.

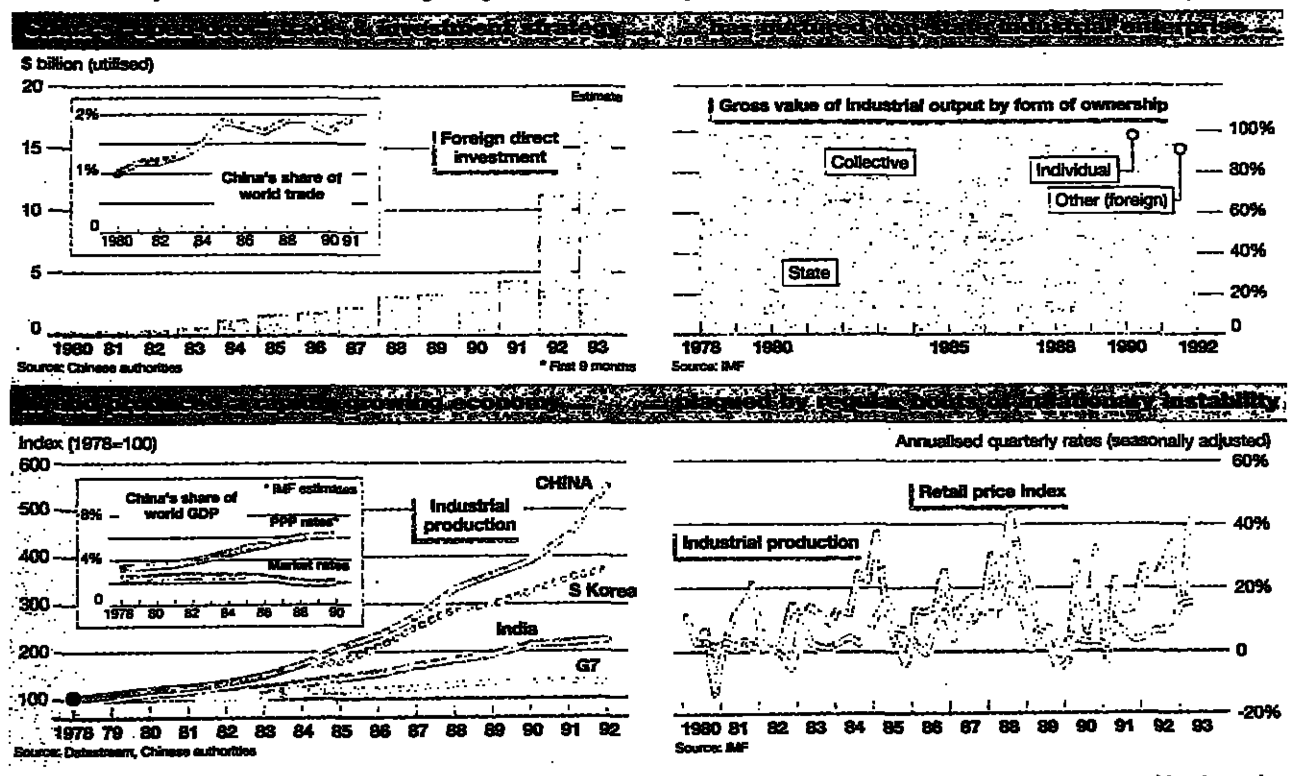
Although this gathering of the Central Committee – the Party's supreme policy-making *body between sessions of its* National Congress – emphasised collective leadership, factional differences were

Continued on next page

IN THIS SURVEY

Trucks and cars jam the famous Bund of bustling Shanghai, China's second city

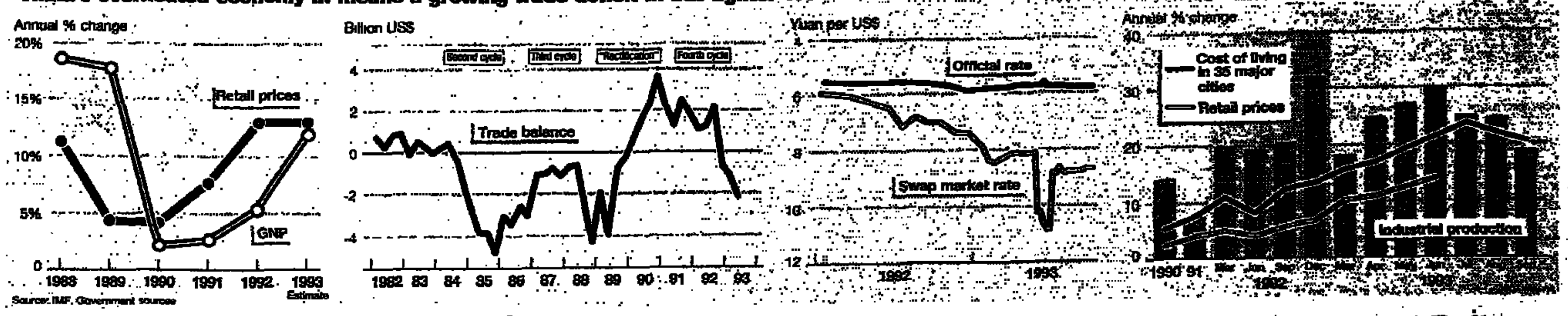
Picture by Cathryn Tremain



China's economic reforms are irreversible: economic growth since 1978 has averaged an astonishing eight to nine per cent a year and its share of world trade has doubled – see report by Edward Balls on page three of this survey. Survey graphics by Robert Hutchison; design, Robin Coles

CHINA 2

China's overheated economy ... means a growing trade deficit ... but tighter credit has stabilised the currency ... and is reducing inflationary pressures



The government has eased monetary policy but inflation is still worryingly high, says **Edward Balls**

Mr Zhu walks an economic tightrope

Mr Zhu Rongji, the vice premier in charge of China's economy, has taken two large gambles since he assumed control of the central bank in July.

First, he enforced a tough austerity programme in the full knowledge that it would make him a number of enemies within the government and in the provinces and make it harder to force through the structural economic reforms.

Then, having taken the heat out of the inflationary boom, Mr Zhu bowed to pressure and eased monetary policy earlier than international lending institutions like the World Bank would have preferred. This risks a resurgence of inflation and an eventual hard landing.

The inflationary pressures which became evident in the first half of this year suggested then that a hard landing might be necessary. Last year's economic performance was impressive: economic growth of 13.8 per cent, inflation under 5 per cent and a current account surplus.

But prices for raw materials such as steel and cement showed sharp gains partly because of a boom in the real estate market as banks lent heavily, and often illegally, to property companies.

Economic growth was 14 per cent in the second quarter compared with a year before. In the same period, investment in fixed assets rose 63 per cent and inflation accelerated to 14 per cent nationwide and 21 per cent in the larger cities.

The government's 16 point plan, announced in July following a first, modest increase in interest rates in May, aimed to take the heat out of a growing speculative property boom. Many measures enforced government regulation which local central bank branches and provincial governments had ignored. Up to 1,000 new development zones were closed by the middle of August.

The biggest economic shock came not from the further rise in interest rates, but an administrative order from the central bank in Beijing that illegal inter-bank loans should be repaid to state banks.

"The only way to tighten credit was to pull the firewood out of the stove," says Mr Lu Baifu, director of the State Council's Development Research Centre. But, unable to liquidate their real-estate lending, banks clamped down on lending to state enterprises, who receive 70 per cent of state banks loans and rely on credit for working capital.

Enterprise deposits at the banks fell by Yn38bn in June, Yn34bn in July and Yn10.6bn in August. Broad money supply contracted in the summer months, and the swap market exchange rate appreciated from its summer low.

The measures have restored some sort of order. Fixed asset investment, which grew by 68.5 per cent in the first eight months, actually fell by 10.4 per cent in August from July.

Growth of industrial output slowed in September to 13.1 per cent compared with the same month of 1992, compared with 22.6 per cent growth in the samer quarter of 1992. Annual-rate inflation in the 35 big cities was 20.7 per cent in September, down from 23.3 per cent in July, while prices of key commodities are falling – steel prices fell 34 per cent in the third quarter.

The effect of the credit squeeze was felt most severely by state enterprises, many of whom found themselves unable to pay wages and complained bitterly to regional and national officials that they were being unfairly treated. The result was strong political pressure on the central bank to ease credit.

An example of this view came from Mr Dong Fureng, a member of the standing committee of the National People's Congress. "Personally, I think Zhu Rongji's macro control measures should be more flexible." he said last month. "Banks should quicken steps to provide loans to troubled enterprises."

Policy has, in fact, been eased progressively since the summer, as Mr Li Lanqing, vice premier, confirmed recently: "There is no disagreement in the Chinese leadership," he said. "We are going to loosen credit a little for profitable state enterprises and the agricultural sector."

Moreover, Mr Zhou Zhengqing, central bank deputy governor, told a Beijing newspaper in October that the central bank had increased the supply of base money by Yn10bn in August and September, compared with Yn1.46bn in the same period last year.

"This should permit the banks to increase loans during the fourth quarter," he said, although credits would flow initially to profitable enterprises. Inefficient enterprises would first have to demonstrate that they had taken steps to reduce reliance on credit. But the risk remains that Mr Zhu has eased too early.

Urban inflation is more than 20 per cent while demand pressures persist. The trade deficit rose to $6.97bn in the first nine months, with import volumes up 29.9 per cent compared with export growth of just 6.6 per cent. The World Bank estimates that China can sustain growth of 8 per cent a year without overheating, but the government is still expecting 12 per cent growth this year.

In short, the underlying inflationary momentum has probably been suppressed rather than cured.

The government claims that illegal interbank borrowing has stopped and that half of the illegal loans have been recovered.

But Mr Lu Baifu of the Development Research Centre is less sure. "The fundamental problem has not been solved. Money growth is still too high, the demand for investment is still too high, and inflation is still too high," he said.

Mr Zhu has, of course, a wider reform agenda to pursue which would be jeopardised by too tough a stance on inflation. One western official in Beijing says: "Zhu Rongji never talks of stabilisation, only of a readjustment of the structure of lending. The government does not want a draconian contraction, just a modest tightening."

Mr Zhu is walking a tightrope, risking being seen to be too tough and too soft at the same time. It is too early to tell whether he will remain sufficiently popular to see his reforms passed – and yet remain tough enough to keep the lid on inflation. But Mr Zhu is still walking.

Progress of economic reform: see facing page

Tony Walker profiles the movers and shakers in China's economy

The meteoric rise of Zhu Rongji

FOR Zhu Rongji, China's senior vice-premier in charge of the economy, 'uneasily sits the crown,' as the saying goes.

The reformist Mr Zhu, who introduced a 16-point austerity programme mid-year, has entered some rough water after offending powerful vested interests in the state sector with his attempts to impose stricter financial discipline.

But the 65-year-old electrical engineer is unlikely to be fazed by criticism if he believes he is on the right track. A native of Changsha in Hunan province close to the birthplace of Mao Zedong, Mr Zhu is known for a stubborn streak, and a willingness to take risks.

He has also experienced ups and downs in a bureaucratic career that began in 1951 as an official involved in central planning after graduating from Beijing's prestigious Qinghua University. In the late 1950s, Mr Zhu's career went into eclipse after he joined criticism of the system in the "Hundred Flowers" campaign of 1957. During his years in the doldrums, which included a stint in the countryside for "re-education" during the Cultural Revolution, Mr Zhu remained nominally a deputy division chief of the State Planning Commission from 1952-1975.

In the last years of the Cultural Revolution he was transferred to the Ministry of Petroleum. Then in 1978, the year that Mr Deng Xiaoping, launched his economic revolution, Mr Zhu became director of the Industrial Economics Institute attached to the Chinese Academy of Social Sciences, an important Dengist "think tank."

There followed jobs with the State Economic Commission, president of the Economic Management Institute affiliated with his alma mater, Qinghua University, deputy Party-Secretary of Shanghai in 1987, and mayor in 1988.

The bold Mr Zhu earned a reputation for getting things done as mayor of the China's largest city: he was known as "one chop" Zhu – a reference to the seal used by Chinese bureaucrats to signal approval.

In recognition of his sterling efforts in Shanghai, Mr Zhu was transferred to Beijing as a vice-premier in 1991, elevated to the seven member standing committee of China's ruling politburo in 1992, made senior vice-premier in charge of the economy in March this year, and concurrently People's Bank governor in mid-year.

By any standards, it has been a meteoric rise, and has, inevitably, aroused jealousies.

Reformist Zhu Rongji has a reputation for getting things done

Lou Jiwei, the ideas man

AMONG Mr Zhu Rongji's core group of close advisers a key figure is Lou Jiwei, director of the Macroeconomic Department of the Commission for Restructuring the Economy.

While, the 42-year-old Mr Lou's substantive position is with the Restructuring Commission, his more important role is that of "ideas man" in the Zhu kitchen cabinet dealing with economic issues.

Indeed, he is credited with a vital part in formulating the 16-point stabilisation programme of mid-year. The representative of an international lending institution says of Mr Lou that he is "very influential" and "liberal minded".

Like Mr Zhu, Mr Lou is a graduate of Qinghua university – he graduated in computer engineering – and, among his more recent tasks, he was head of the Shanghai Commission for Restructuring the Economy. This was during the period when Mr Zhu was mayor.

Zhu Xiaohua, youthful adviser

ZHU XIAOHUA, the new deputy governor of the People's Bank, China's Central Bank, is another of Mr Zhu Rongji's youthful advisers, and like Mr Lou Jiwei, these connections stem from associations formed in Shanghai in the late 1980s. The 44-year-old Mr Zhu served as vice-president of the People's Bank's Shanghai headquarters from 1987-1990. This was during Zhu Rongji's term as mayor.

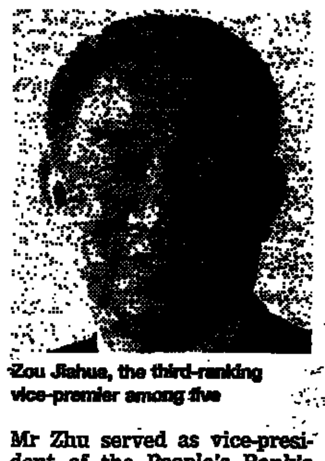
A graduate of the Shanghai Institute of Finance, Mr Zhu Xiaohua was seconded to the International Monetary Fund from 1991-92. He returned to be deputy director of the economic section of Xinhua news agency in Hong Kong before his appointment to the People's Bank in July.

The Xinhua offices in Hong Kong are China's unofficial headquarters in the colony, and officials placed there are effectively Beijing's senior diplomatic representatives. Mr Zhu, described by a Chinese economist as "smart," is a native of Zhejiang province, south of Shanghai.

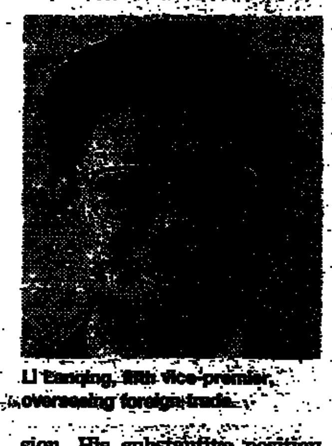
Li Jiange has a crucial role

LI JIANGE has the least public face of Mr Zhu's close staff, but according to a Chinese economist familiar with the workings of the vice-premier's office, Mr Li plays a crucial role as a personal assistant and speech-writer.

Mr Li, who is in his forties, has worked in recent years in the State Council's Development Research Centre, the Cabinet "think tank," and in the State Planning Commission.



Zou Jiahua, the third-ranking vice-premier among five



Li Lanqing, fifth vice-premier, overseeing foreign trade

His substantive position is deputy director of the law and policy department of the Economic and Trade Commission, but he spends almost no time there these days. A Western economist describes Mr Li as "clear-headed." He is tipped for bigger and better things.

Zou Jiahua: wide connections

ZOU JIAHUA, the third ranking vice-premier among five behind Premier Li Peng and Mr Zhu Rongji, appears to have seen his influence diminished recently; but with his wide Party and bureaucratic connections his present lack of prominence may be temporary.

The 67-year-old Mr Zou, is married to the adopted daughter of the late Marshal Ye Jianying, one of the heroes of the Communist revolution, and is a son of Zou Taofen, a famous intellectual and journalist from the Shanghai of the 1930s.

His responsibilities include industry and the State Planning Commission which is seen as a haven for officials antipathetic to Mr Zhu's reformist zeal. But the Shanghai-born Mr Zou himself is regarded as a moderate with liberalising tendencies. His long experience in the Chinese bureaucracy includes stints as Minister of Machinery and Electronics and director of the State Planning Commission.

Born in Shanghai, Mr Zou was trained as an engineer in the Soviet Union between 1948-55. He is fluent in Russian and speaks some English.

Li Lanqing's star is rising

THE fifth-ranking vice-premier, Li Lanqing is one of China's more impressive officials whose star appears to be rising. The urbane Mr Li, 61, has overall responsibility for foreign trade and education. Among his more important tasks is selling China to the outside world. He is frequently charged with the task of receiving foreign visitors.

In his previous role as Minister of Foreign Economic Relations and Trade (Mofert), he travelled widely. He speaks passable English. Much of his experience has been in the automotive sector. A graduate in enterprise management from Shanghai's prestigious Fudan University, he was trained at automotive plants in the Soviet Union in the 1950s.

Mr Li was appointed vice-premier in March. According to Chinese insiders he fought a successful rearguard action to stop the powerful Trade Ministry (now called the Ministry of Foreign Trade and Economic Co-operation – Moftec) from being dismembered.

Wu Yi: "a smart, tough bargainer"

THE 55-year-old head of the Ministry of Foreign Trade and Economic Co-operation (Moftec), Wu Yi may not be the highest-ranking female in the hierarchy, but her "trade minister" role gives her the most prominence. Appointed minister in March this year, Ms Wu is regarded as one of the younger breed of officials more likely to succeed. She first came to international notice when negotiating trade agreements with the US. Her opposite number, Carla Hills – the US special trade representative – said of her negotiating partner that she was a "smart and tough bargainer."

Trained as a petroleum engineer in Beijing, Ms Wu spent 25 years in the petroleum industry, most of them working in refineries. A Xinhua dispatch listed her hobbies as tennis, golf, angling and reading – Tolstoy, Hugo and Balzac. Ms Wu is unmarried.

Challenges for China's rulers

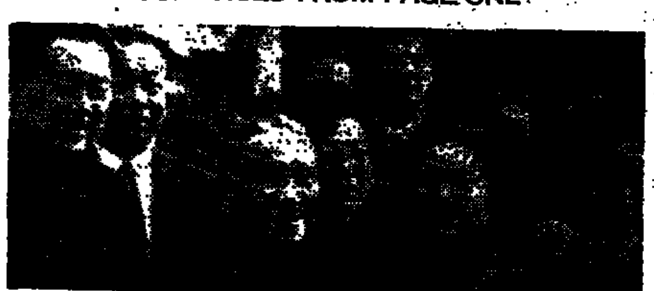
CONTINUED FROM PAGE ONE

unlikely to be far below the surface. Chinese leaders are now fully engaged in manoeuvring for power in preparation for the post-Deng era.

The party can ill afford to be distracted, since it faces challenges on many fronts. Not least of these is the widespread public perception that, bereft of new ideas and new faces, it is less relevant. Attempts to shore it up by engaging in campaigns like this year's anti-corruption drive are hardly convincing. In the end, the party's survival will depend not on propaganda but on the ability of China's rulers to continue delivering improved living standards.

For the time being, political liberalisation has been ruled out, but inevitably, the sheer pace of economic change is eroding the party's ability to assert control as before. Faint voices can also be heard advocating greater pluralism, although political dissent continues to be stamped upon.

Among China's supreme challenges is to deal with the widening income gap between prosperous coastal regions and the impoverished hinterland, and also between peasant farmers and urban dwellers.



Chinese patriarch: In a rare public appearance, Deng Xiaoping, now 89, with his daughter, Deng Nan, visited Shenzhen in 1992. Deng launched China's second revolution, 15 years ago – with remarkable results

With surplus labour of 100m among China's 900m peasants, there is no room for complacency.

Widespread peasant unrest this year – more than two hundred separate incidents had been reported by mid-year – unnerved the leadership, and prompted an urgent review of measures to improve the farmers' lot, including prompt payment of money owed for produce acquired by the state. Older generation Chinese leaders had not forgotten that it was the peasants who were the footsoldiers of the revolution.

While domestic issues, including the succession struggle and attempts to bring the economy under control without risking severe retrenchment, have tended to preoccupy the leadership, other concerns have also intruded.

China's spirited but unsuccessful campaign to secure the 2000 Olympics for Beijing would have reinforced among senior officials the realisation that engagement with the outside world will never be easy. Human rights issues, including memories of the Tiananmen square massacre of 1989, almost certainly helped to torpedo the Chinese bid. But these officials would understand that China's ambitions to be a world power, economically and politically, by early next century mean that retreat into brooding isolation has long ceased to be an option.

Trade issues, including China's application to re-join the General Agreement on Tariffs and Trade and its efforts to preserve its Most Favoured Nation trading status with the US, make it imperative that Beijing strike out even more boldly into the international mainstream.

Among promising developments is the decision of Mr Jiang Zemin, China's president, to attend an Asia Pacific Economic Co-operation leaders' conference this week in Seattle. President Clinton and Mr Jiang have much to talk about, not least how to place Sino-US relations on a more business-like basis, and thus avoid the risk of rupture over issues ranging from human rights to arms proliferation.

If the early 21st century is to be the era of the Pacific, there is hardly a more important relationship than that between the remaining superpower and a rapidly modernising state with more than one-fifth of the world's population and economic ambitions to match.

Centres of power: see page four

the very least Russia is likely to need World Bank help if it is to proceed.

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■ ECONOMIC REFORM

The cage opens and the bird learns to fly

But China's economic flight path will remain erratic for some years, writes Edward Balls

THE "bird in the cage" was how China's leadership described its approach to economic reform in the early 1980s: the nurturing of fledgling market forces within an overall central plan. But, as the bars of this cage have been progressively dismantled, China's economic bird has stretched its wings.

Economic growth since 1978 has averaged an astonishing 8-9 per cent a year, the mushrooming of collective enterprises has reduced the share of the old state enterprises in total employment from 81 per cent in 1978 to less than 50 per cent today, China's share of world trade has doubled and 200m people have been released from absolute poverty.

Nor has this new economic freedom been concentrated in a few southern and coastal provinces. From Guangdong in the south, past Jiangsu province on the east coast to Jilin province in the north, the evidence of dynamic economic change is evident to the eye: in the rows of advertising hoardings which line the streets of northern Tianjin, the construction cranes which dominate the Guangzhou skyline or the congested streets and overflowing market stalls of Shanghai.

Yet the dismantling of the planning cage, and the decentralisation of economic decision-making, have caused severe economic and political difficulties for the government in Beijing. The next phase of reforms needs *to find reformist* solutions to the problems of growing inequality and macroeconomic instability if development is to continue at the same pace.

Decentralisation has been the driving force behind China's economic dynamism. Reforms have occurred step-by-step, often province by province, with liberalisation occurring first in agriculture and only later in the banking and state enterprise sectors. The rapid output response to the decentralisation of farming kick-started reform, generating a substantial pool of savings which enabled local governments to encourage rapid growth in rural manufacturing.

Equally important was the decision to allow selected provincial governments to set up *development zones, offering* tax and duty concessions to exporters and foreign investors. Again, the response in terms of export growth and, later, the volume of foreign direct investment was dramatic.

This explicitly regional and decentralised approach has been important for a number of reasons: the central government has been able to test deregulation in particular provinces; provinces have been keen to compete with each other to attract investment; all have had strong incentives to encourage local enterprise and thus expand their own tax base.

But this regional approach has also caused problems. By encouraging rapid growth in the southern and coastal provinces, the Chinese government *has allowed the growth of wide* income gaps between provinces. The World Bank estimates that 100m people still live in poverty, almost entirely in rural areas and more often in northern and western provinces where growth in rural enterprise has been much less dramatic.

Beijing's reformers face, as a result, pressure from poorer provinces for aid from the centre combined with a large "floating" labour force which, they say, threatens China's sacred "social stability". But, by allowing richer provinces more control over their own tax base and more power to offer tax concessions, the centre has been less able to redistribute revenue for spending on education and health.

THE most immediate *problem for Beijing is* macroeconomic instability. China does not have the social and physical infrastructure to sustain growth rates in double figures. But, without sophisticated monetary and fiscal levers, the central government has not had the means to keep growth at a sustainable pace. Each time the bird has soared higher, it has fallen back to earth with a bigger, reform-threatening thud.

The overheating in the first six months of this year illustrates the problem. Provincial governments and local central bank branches responded to last year's southern tour by Deng Xiaoping by effectively ignoring restrictions on credit creation. Rapid growth and real estate investment in urban and coastal regions was quickly followed by inflation *as infrastructure bottlenecks* developed and raw material prices soared.

While the central bank had lost control of credit creation, the government could not quickly raise taxes or cut spending in the overheating provinces. For all the government and the World Bank's talk of "indirect" measures such as interest rate increases, the government had no effective means, short of a blunt across-the-board clampdown, to slow the economy. Fortunately, this time the clampdown was enforced by reformers rather than conservatives.

The need to develop more sophisticated policy levers poses a dilemma for reformers. Curing this boom-bust cycle requires a re-centralisation of economic power, particularly over monetary and fiscal policy. But, *if reform is to* progress, this re-centralisation must occur with the support of the richer provinces and without blunting China's regional dynamism. For this reason, vice-premier Zhu Rongji's determination to avoid a hard landing which would threaten support for planned reforms of the central bank, fiscal policy and the banking sector.

But Mr Zhu's task is more complicated. As the economy has developed, the step-by-step approach to reform has become much harder. The central bank will not be able to use monetary policy effectively until the banking sector acts competitively. The banks cannot lend commercially until they are *freed from the need to support* loss-making state enterprises. But these state enterprises remain the main source of welfare services – housing, health and pensions. The state cannot allow them to go bankrupt, and workers dare not change jobs, until a new state welfare structure has been constructed outside the enterprise sector, a task which has only just begun.

*In short, the levers of macro*economic control in China will remain difficult to use for fine tuning. Even if Mr Zhu succeeds in avoiding a hard landing and can reassert the central bank's authority, it seems doubtful that China has seen the last of its boom-bust cycles. The economy is now almost certainly too open, and market forces too deeply embedded, for China's bird to be re-caged. But its flight path will remain erratic for some years.

■ ECONOMIC DECISION-MAKING

An exhaustive and wearying process

WHEN CHINA was grappling earlier this year with the vexed issue of what to do about an overheating economy, no fewer than seven ministers from the economic sphere were despatched on inspection tours of the provinces.

Among these senior officials was Mr Liu Zhongli, the finance minister, who visited the booming coastal provinces of Fujian and Zhejiang. It was a salutary experience for Mr Liu who discovered widespread misuse of funds and a flouting of central government edicts by banks and by provincial officials.

"I was shocked by certain phenomena," said Mr Liu of the practice of banks to ignore credit plans which required certain funds to be set aside for payments to farmers and also for key infrastructure projects. Instead, money was being shovelled into real estate ventures, often through trust and investment companies set up by the banks themselves.

"Personally, I went to the banks and checked their records," said Mr Liu. "I also went to construction sites to find out how money was being spent." Among proposed ventures that came to light was one for the construction of no fewer than 10 golf courses. The economic decisions that emerged in early July to calm an overheating economy and bring order to a chaotic financial system, included a specific ban on the construction of new golf courses.

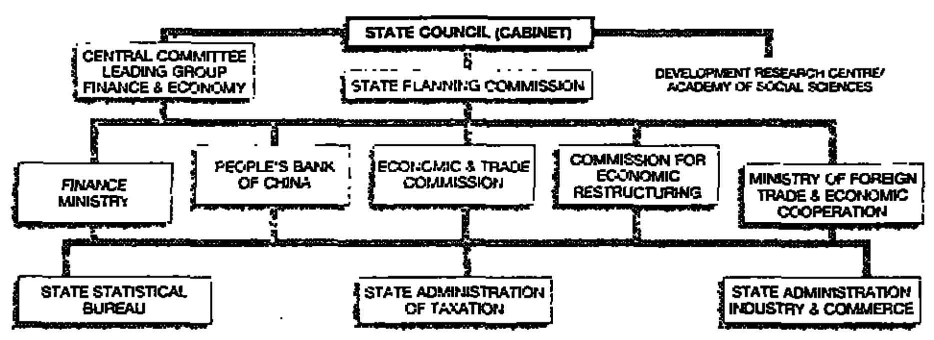
In the West, the idea of the finance minister thumbing through the records of local financial institutions would seem laughable, but in China, the inspection tour remains a tradition. Mr Liu's tour of Fujian and Zhejiang, as part of a fairly exhaustive process, which eventually yielded the 16-point stabilisation plan of mid-year, reveals how economic decisions are still made in China. The process remains cumbersome, owing more to tradition than to modern methods of economic management, even in these days of glib use by Chinese officials of economic jargon that would have no place in Marxist textbooks.

Yawning delegate: budget speeches prove too much for one official at the National Peoples' Congress in Beijing's Great Hall Picture: AP

Implementation of the austerity programme after problems of overheating surfaced last year, began effectively at a work conference held last December in Beijing and presided over by Mr Jiang Zemin, the general secretary of the Communist party. But it was not until May this year that alarm bells really began ringing at the centre, and this was after Mr Liu and his fellow ministers reported back on the extent of the problem.

Much time had been wasted since the Beijing conference, thus risking a more severe retrenchment than might have been necessary if prompter action had been taken. When the state council, China's cabinet, met in May to consider a report of the state planning commission, time for action was already overdue. Indeed, there was little argument at that meeting about the need for drastic measures to calm the economy, and to put a stop to the rot at provincial level that was eating away at Beijing's control, and playing havoc with central government finances.

Key economic ministries, commissions, bureaux



The state council laid down broad proposals for bringing order to the economy, and these were passed on to the standing committee of the Communist party's ruling politburo for approval. But it was left to Mr Zhu Rongji, as the senior Vice-Premier in charge of the economy to formulate detailed plans. These were the product of consultations among key economic policy-making elements of government, such as the People's Bank and the finance and trade ministries, and also among the various commissions and agencies concerned with the economy.

These include, apart from the State Planning Commission, the Economic and Trade Commission, the Commission for Economic Restructuring, and the Development Research Centre under the state council. Another important element in the decisionmaking process that spawned the 16-point austerity plan and the proposed reforms of the financial sector was advice from international financial institutions such as the World Bank and International Monetary Fund. A conference, jointly organised by the World Bank and the Commission for Economic Restructuring, held in June in the northern city of Dalian helped refine some of the ideas that were being formulated by the bureaucracy.

CLOSER consultation with international institutions increasingly is a feature of Chinese decision-making.

Ultimately, however, recommendations and ideas were distilled by a body which tends not to appear on organisational charts, that is, the Central Committee's leading group on *finance and the economy* presided over by Mr Zhu.

This supra-ministerial organisation, effectively signs off on key economic policy decisions which are then referred to the Politburo and State Council for formal approval.

The process by which economic decisions are made in China, especially where there might be risk of social and economic dislocation, is exhaustive and exhausting.

Like any bureaucracy, China's is riven by competing ambitions and policy differences.

Factional rivalries among leadership contenders are often played out in the musty corridors of the ministries, commissions and agencies listed above.

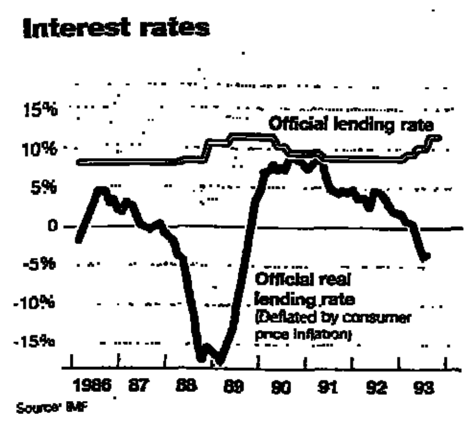
While Mr Zhu appears shrewdly to have strengthened his hand over key ministries and agencies like the People's Bank of which he is the governor, he still faces significant opposition from conservatives in bodies such as the State Planning Commission, whose own previously all-powerful role has been diminished by the market reforms.

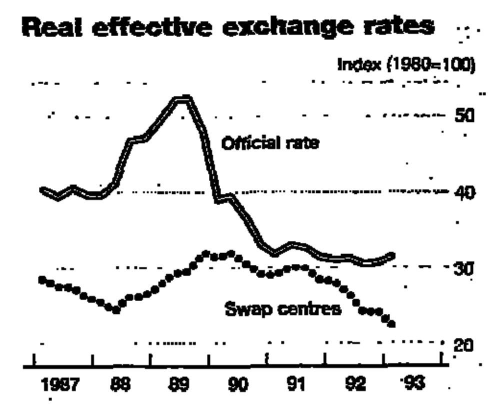
Tony Walker

■ FOREIGN EXCHANGE

Austerity reduces demand

Abolition of the two-tier exchange rate systems and the shift to convertibility could happen soon reports Edward Balls





THE thrice-weekly foreign exchange market at the Tianjin foreign exchange adjustment centre opens promptly at nine in the morning. Seated in rows wearing numbered bibs, the traders – from banks, large enterprises or brokers representing smaller companies – first speak into their microphones the amount of dollars they want to buy or sell. Then the buying and selling begins.

"Trader number 19 wants to sell 50,000 at Yn8.7 per dollar – who wants to buy?" cries the blue-cardiganed young auctioneer, the bid illuminated on the electronic trading board behind. Laughter rings round the room – the "swap market" exchange rate has been stuck at 8.7 for a number of weeks now, despite the fact that demand for dollars has dwindled.

The market was much busier in the first half of the year, with a daily turnover of $3-5m, but the government's austerity measures appear to have reduced the demand for foreign exchange and turnover has fallen to $3m a day on average. State enterprise traders appear to have stayed away – only 16 of the 51 trading seats are filled – and business is completed within 45 minutes.

"About a month ago the seats were all filled," says trader 19, a 37-year-old woman named Xu Cuie who buys and sells on behalf of enterprises in Tianjin's free trade zones. "There are too many sellers of dollars and not enough buyers – the enterprises just do not have enough local currency."

The Tianjin swap centre is one in a national network of 100 regional FEACs, established in 1987 when the government moved officially to a dual exchange rate system, and which today form the backbone of what has become a relatively free floating foreign exchange market. Reform began a decade ago when the government relaxed rules requiring exporters to submit all their foreign exchange at the official rate. Instead, it allowed them to swap their currency for Foreign Exchange Entitlements (FEES) which then could then use at a later date to buy currency.

In 1987, the government established the swap centres at which these FEEs could be traded, thereby establishing a dual exchange rate system. Access to these swap markets was initially very restrictive, but the regulations have been progressively eased.

Today, 80 per cent of China's current account transactions occur at the swap – or floating – rate: the official rate is used mainly for tourists who, by law, must exchange foreign currency at the punitive official rate.

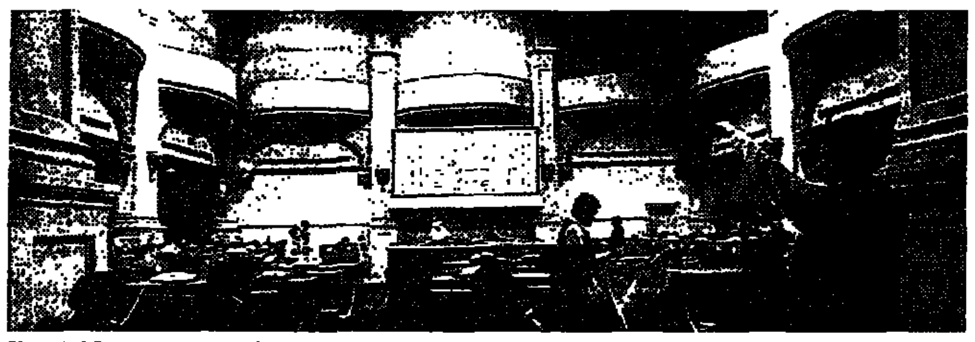
Companies must also sell 20 per cent of their foreign exchange earnings to the state at the official rate, and the government has the right to buy another 30 per cent at the swap rate. The rest can be retrained or sold for FEEs which can then be traded at the swap market, although these days the majority of trading occurs in currency. But the foreign exchange rate is far from being a free market: the government still controls 50 per cent of foreign exchange, which it purchases outside these markets and uses to manage the swap rate, and access to the market is still restricted.

Moreover, the government responded to the overheating in the first half of the year by trying to re-impose control, first by not devaluing the official rate as the swap rate fell in response to heavy demand for foreign exchange and then by trying to cap the swap rate through administrative interventions. The result was to open wide a 45 per cent differential between the official and swap rates and to force transactions into the black market until the government allowed the swap rate to fall in June.

Yet, despite this year's difficulties, many observers believe that the government's stated next stage of reform – abolition of the two tier exchange rate system and the shift to convertibility – could happen soon. That will require a national swap market, an abolition of restrictions on access to the FEACs and abolition of remaining surrender requirements so that the government has to buy all its foreign exchange at the swap markets.

For the central bank, this will mean that the exchange rate becomes a more effective monetary policy tool and will sharpen the link between interest rates and the real economy. But for the government and some state enterprises, it will remove a convenient source of cheap currency.

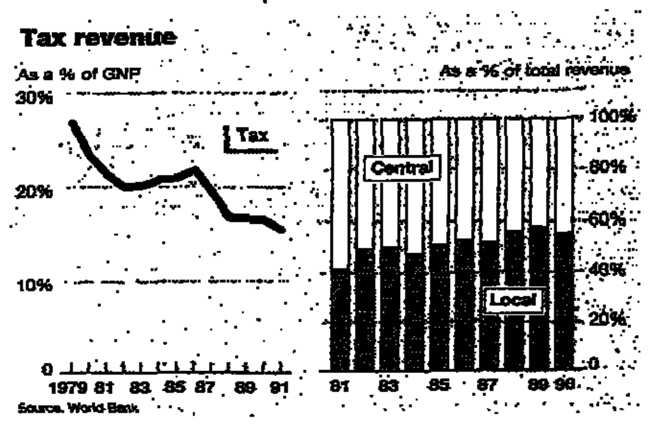
"Now is the right time to unify," says Mr Qin Chijiang, director of monetary research at the central bank. But Mr Liu Zhongli, finance minister, is more cautious. "We are gradually closing the gap between the official and the swap market rates," he says. "But there is no timetable yet for unification."



Shanghai Stock Exchange: with the growth in the number of stocks traded has come an explosion in the number of securities companies: see financial reports on pages 11 and 12 of this survey Picture: Cathryn Tremain

■ FISCAL POLICY/TAX REFORM

A decade of radical changes



DECENTRALISING economic decision-making to dynamic provincial governments has been at the heart of the central government's economic reform strategy, but this devolution of power has also caused severe problems for Beijing's reformers.

Fiscal policy is one area where decentralisation now risks impeding further reform. Both the World Bank and the International Monetary Fund are keen that some re-centralisation of budgetary policy be at the heart of the next round of reforms. According to the Bank, "reforms to equip government with the appropriate tools for fiscal policy are a matter of urgency."

China's budget data, although often opaque and irrationally constructed, provide a good indication of the radical changes which have occurred in the fiscal relations between the centre and the provinces over the last decade. Total tax revenue has dropped sharply over the past decade, from 26.7 per cent of gross national product in 1979 to 15.8 per cent in 1991.

Within this declining total, the share of revenue which the central government retains has fallen from nearly 60 per cent at the beginning of the 1980s to 45 per cent by the end of the decade. Meanwhile, the share of revenue collected by locally levied, as opposed to nationally set, taxes has also fallen.

THIS decline in total tax revenues was, in part, deliberate – the result of freeing the state enterprise sector from direct government control. This change is reflected in the growth of what the government calls "extra-budgetary funds" amounting to 15 per cent of GNP, largely surpluses of state enterprises. But revenue collection from enterprises has fallen faster than expected as individual enterprises have negotiated favourable tax arrangements.

Meanwhile, the state enterprises continue to provide substantial welfare functions while loss-making state enterprises still receive cheap credit from the central bank, implying larger effective budget deficits than the modest budget gaps that the official figures reveal.

The fall in central tax revenues was also an intended consequence of the decision to give more autonomy shift to regional governments. In the late 1980s, the government introduced a new system whereby each province negotiated a three to four year tax-sharing contract with the central government. State government have been given greater responsibilities in providing housing and welfare services to their populations, requiring more locally retained tax revenues. They have also been encouraged to offer tax incentives to foreign investors.

But these new arrangements remain a significant source of tension between the centre and the provinces. Some local official have been unhappy at the tax deals struck by fast growing provinces, while the centre has been unable to enforce the contracts. In 1990, according to the IMF, only six provinces recorded a surplus even though 16 were contractually obliged to do so. But it was in the first half of this year that the revenue shortfall became particularly acute, resulting in the central government's decision to send teams of ministers to tour the provinces in the middle of this year to find out what was happening.

"Local governments have been abusing their power," says Mr Liu Zhongli, finance minister. "They reduced taxes to certain enterprises which meant less revenue for my ministry. But I inspected their books and put a stop to these practices, and now our revenues have increased."

The result of the fall in central tax revenue has been to the undermine fiscal policy as a macroeconomic policy weapon, while imparting an inflationary bias into the economy. Local governments have found it easy to over-run their budgets, while tax revenues have consistently lagged behind economic growth and budget spending.

Moreover, the government in Beijing has found it increasingly hard to use fiscal policy to offset the large growth in inter-regional inequality. Currently there are wide cross-regional differences in expenditures on education and health: spending per head in Shanghai is four times that in Sichuan province – while there is little relationship between a province's average income per head and the net transfer it receives or sends from or to the centre.

The Ministry of Finance is planning to address some of these deficiencies over the coming year. It plans to levy a uniform 33 per cent tax rate on all enterprises; to broaden and simplify the currently very limited value-added tax by extending it across the country and reducing the number of rates from fourteen to two; and to introduce legislation next year for a new tax-sharing scheme which will increase Beijing's revenue share.

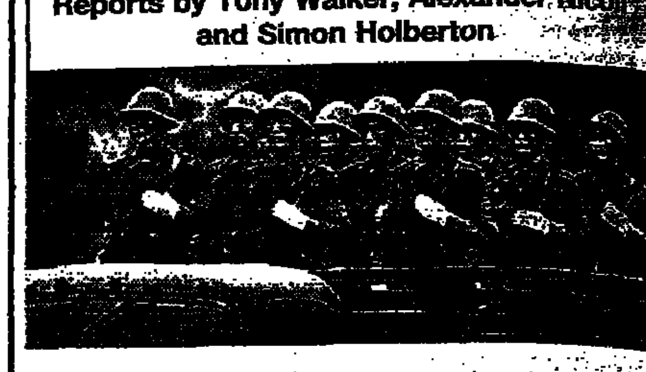
The details of the new scheme are not yet known, but are likely to be an extension of a pilot "tax-sharing" scheme introduced in nine localities last year which clearly separated central, local and shared taxes. But the World bank has misgivings about the tax-sharing scheme, arguing that it does not move far enough away from the contracting system whereby the central government continues to rely on the remittance of locally collected tax, the fact which lies at the heart of the current difficulties. It prefers te idea of an inter-provincial equalisation fund to redistribute locally collected revenues.

But any system which succeeds in raising the taxes paid by the richer regions is bound to be unpopular.

Edward Balls

Centres of power

Below, and on the following two pages, correspondents examine the political and military scene, plus regional developments. Reports by Tony Walker, Alexander Nicoll and Simon Holberton



The military: the great imponderable

Jostling for the Deng inheritance

IN the first week of November, as a winter chill began to settle over Beijing, Chinese leaders gathered in the Great Hall of the People to celebrate publication of volume three of the *Selected Works of Deng Xiaoping*.

In the way of things in the Chinese leadership this was much more than a publishing event: it was both an acknowledgement that the end was drawing nearer for China's 89-year-old patriarch, and an attempt to reinforce commitment to his reforming legacy among possible waverers in the ranks of Communist party conservatives.

Preparations for the post-Deng era have come more and more to dominate the ruling party's internal discourse, and to preoccupy its main personalities who are only too well aware of the difficulties that lie ahead. Manoeuvring for life-after-Deng touches almost all aspects of politics in China, and the struggle for power and influence can only intensify as the moment of reckoning approaches.

Reformist legacy

The redoubtable Mr Deng, who re-emerged 15 years ago from political oblivion to steer China towards the international mainstream, and away from its years of isolation and despair, knows that words alone will not be sufficient to guarantee his reformist legacy, but time appears to have run out for him to re-shuffle for the third time the deck of leaders who will succeed him.

For the potential weakness of his legacy lies not in whether his inventive theories stand the test of time – Mr Deng has "theories" while Mao had "thoughts" – but in the political durability of those who have been designated as his heirs. Nothing would place the Dengist legacy under greater threat than a crumbling at the centre brought about by bitter factional strife and the absence of strong leadership.

While, Mr Deng – who was purged twice during the Cultural Revolution – has proved remarkably adept since his rehabilitation in 1977, at refashioning Chinese ideology in his own image, with useful catch-phrases, such as "Chinese characteristics", to provide a veneer for capitalist reforms, he has been much less successful in selecting and nurturing potential leaders.

His earlier creations did not stay the distance: namely Mr Hu Yaobang, who reigned briefly as party general secretary, before he was ousted by conservatives for being too liberal, and Mr Zhao Ziyang, who fell because of his alleged sympathies for the Tiananmen protesters in 1989.

In the bitter aftermath of Tiananmen, Mr Deng, was obliged to look beyond the central leadership group in Beijing for an official untainted by the tragic June events. Hence, Mr Jiang Zemin's elevation from the relative obscurity of Shanghai party boss to general secretary of the Communist Party.

Since then, Mr Jiang has also been appointed chairman of the Central Military Commission and state president.

But in the eyes of Chinese and foreign observers, far from bolstering the 67-year-old Mr Jiang's position, these additional appointments suggest weakness. After all, Mr Deng, who has exercised more power in post-revolution China than anyone except Mao himself, has never been premier, president or party boss: he has not needed titles to assert his authority.

In what was almost certainly an acknowledgement of the inherent flimsiness of the leadership group chosen to carry on Mr Deng's work, much was made in late 1992, and early 1993, of a collective leadership with Mr Jiang at its core. This collective rested on the shaky foundations of the avuncular, although hardly inspiring, Mr Jiang, and the Premier Li Peng, who was laid low by a heart condition in April. He returned to active duty in September.

Mr Li, whose public image is that of a fairly ineffectual careerist, suffers from the lingering fallout of his involvement in the decision to crack down on the pro-democracy protesters in 1989.

Both Mr Jiang and Mr Li are regarded as relatively conservative, although they are not averse to trumpeting reformist slogans, if that conforms with the prevailing current.

The strength of the leadership appears to lie in its second tier, in the persons of Mr Qiao Shi, the 69-year-old chairman of the standing committee of the National People's Congress, and in Mr Zhu Rongji, the 65-year-old senior vice-premier in charge of the economy. Both are members of the seven-man standing committee of the ruling politburo.

But while Mr Qiao, who has long been responsible for overseeing China's security apparatus, enjoys widespread factional strength, doubts persist as to the reformist Mr Zhu's ability to continue his meteoric rise in the party and state hierarchy, once his mentor, Mr Deng, departs from the scene. Mr Zhu, who has had a fairly bruising campaign since mid-year in defence of his 16-point austerity programme, will have made some powerful enemies, both at the centre and in the provinces. His status as a relative newcomer – he was mayor of Shanghai before his transfer to Beijing in 1991 – renders him vulnerable in the factional struggles that swirl constantly about the leadership group.

Loyalties

The affiliations and loyalties of other members of the Politburo standing committee – Mr Li Ruihuan, the 59-year-old propaganda chief, Mr Hu Jintao, 50, who is in charge of Party discipline, and General Liu Huaqing, 77, the senior military figure – are something of a mystery.

Beyond the jostling for power among the leading candidates in preparation for the post-Deng era is the wider issue of just how well equipped is the Communist party itself to deal with the challenges ahead.

The anti-corruption campaign launched in the second half of the year was recognition that the party's tattered prestige was continuing to be undermined by a widespread perception that officials were profiting personally from the economic boom.

But in spite of a rash of executions of allegedly corrupt officials and a continuing noisy public campaign, the long-suffering masses appear not entirely convinced that the rectification drive is much more than window-dressing, since those ensnared have been, almost without exception, relatively low-level functionaries. People believe that the problem reaches high into the party itself, and that among the main offenders are the sons and daughters of senior officials.

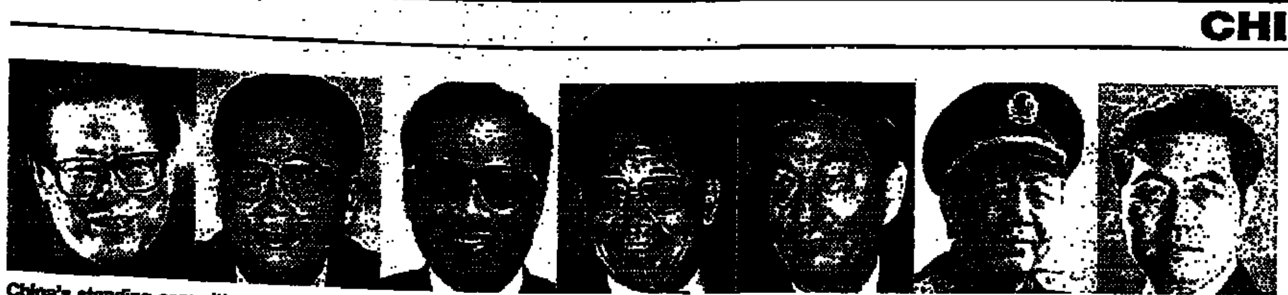
In all the calculations about the way ahead politically, the military remains the great imponderable. There is no doubt that in the post-Deng era – as it does now – the People's Liberation Army will play a key role. Support of the top generals will be crucial for whomsoever emerges on top, however, and ultimately the army remains the guarantor of party authority. The professionalisation of military ranks has not changed that.

Tony Walker

the very least Russia is likely to need World Bank help if it is to proceed. In the Ukraine, unable and

Mr Remy Carle, ... the WANO governing board and deputy general manager of Electricité de France, told the

fuels and other matters ... which the nuclear industry has little control.



China's standing committee of the Politburo – from left to right: Mr Jiang Zemin, General Secretary of the Communist Party and President; Mr Li Peng, the Premier; Mr Qiao Shi, Mr Li Ruihuan, Mr Zhu Rongji, General Liu Huaqing and Mr Hu Jintao

Tony Walker looks at the influence of the armed forces

Long march to modernisation

COLONEL Pan Zhenqiang, director of the Institute for Strategic Studies at the People's Liberation Army's National Defence University, has a vision of China's strategic environment that should hearten its neighbours.

China, he believes, should press hard for multilateral security arrangements like the Conference on Security and Co-operation in Europe (CSCE) that would lessen regional tensions, and overcome mistrust that has bedevilled relationships for generations.

"Our priority is to try to change from confrontation which is a zero-sum game in nature to co-operative relationships," he says. "We do not advocate a transplanting of the CSCE, but we believe such ideas can be adapted to the Asian environment."

These views may be regarded sceptically by Asian nations which have expressed alarm over what they perceive as China's attempts to extend its military reach with purchases of new weapons systems from the arsenals of the former Soviet Union, and other sources such as Israel. But calls by Chinese officials for closer regional security co-operation appear to reflect a genuine interest in finding ways to deal with potential security problems peacefully.

Not least of the factors weighing in China's calculations is the enormous cost of acquiring modern weapons systems that would be required to project its power beyond its own borders. The continuing debate within the military over whether China can afford its first aircraft carrier is just one example of these financial constraints.

While China increased the allocation to defence by 12.4 per cent to Yn42.5bn (US$7.4bn) this year, the fourth straight increase in defence expenditure, spending remains low by most standards, even taking account of the fact that the budgeted amount accounts for less than half of the total cost of maintaining the military. Military analysts in Beijing believe that talk of a Chinese regional threat is exaggerated, while they also acknowledge that the sheer weight and size of China's armed forces certainly make them appear threatening in the regional equation – "I don't 'buy' talk of a China threat," says one Western official whose role it is to monitor developments in the military. "Their modernisation programme is simply not enough to make them a regional threat."

Mr Qian Qichen, China's Foreign Minister, seeks fairly regularly to calm regional concerns about his country's military intentions by comparing official expenditures with those of the US and Japan.

"In terms of absolute figures, China's military spending this year will be $7.4bn, compared with $274.3bn for the US, $37.7bn for Japan," he told a press conference earlier this year. His use of the phrase "absolute figures" is somewhat ingenuous, however, since, increasingly, China's military has been augmenting its meagre stipend from the state with business activities which have gone far beyond the original intentions of the founders of the PLA who favoured such worthy money-making pursuits as agriculture and roadbuilding. The military has become ever more deeply engaged in *bingshang*, literally "soldier's business", through affiliated organisations like China North Industries Corporation (Norinco), and China Poly Group Corporation. Both are heavily involved in the arms trade, and increasingly in other commercial pursuits, as well.

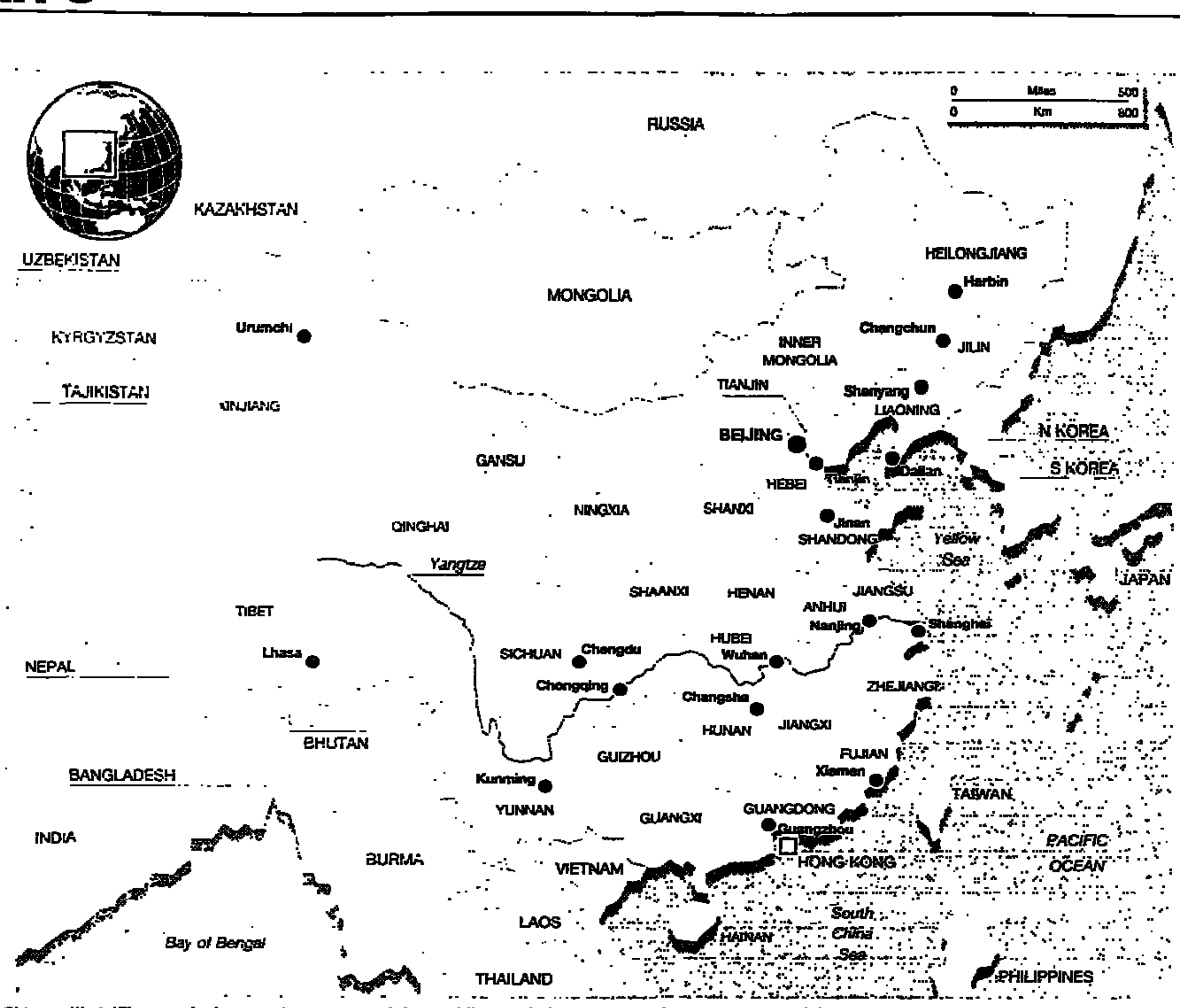
A dramatic slump in China's international arms trade from $4.7bn at the height of the Iran-Iraq war to perhaps as little as $100m in 1992 is obliging the country's military-industrial complex to seek opportunities away from the arms business.

There is scarcely a branch of the Chinese military these days not engaged in some way or other in *bingshang*. "Soldier's business," has come more and more to mean "big business" for sections of the military whose commercial activities range from real estate speculation to trading in cars and other commodities, and even the management of discotheques and karaoke bars.

Unsurprisingly, the expanding business activities of PLA Inc., as China's 3m strong military is referred to in some quarters, has prompted fierce debate within the defence establishment.

"Our main mission should be the defence of the country," said Colonel Pan from the PLA's National Defence University. "We have to draw a kind of demarcation line . . . One should not go too far in pursuing business."

Limited financial resources are being devoted to increasing the mobility of the army and building up air defences. The recent purchase of 24 Su27 fighters from Russia is part of the process.



China, with 1.17bn people, has nearly a quarter of the world's population and around seven per cent of the earth's arable land. For two decades, China has tried to limit curb its population growth – the policy is to limit couples to one child, mainly through financial incentives.

■ SPECIAL ECONOMIC ZONES

Socialist showcases

CHINA'S long march towards a market economy began in a sleepy border town to the north of Hong Kong called Shenzhen in Guangdong province.

Along with two other towns in Guangdong and one in neighbouring Fujian province, Shenzhen has become the showcase for what China's leaders now call the country's socialist market development.

These "special economic zones" (SEZs) pioneered many of the reforms in company management, decentralised economic decision-making and forms of co-operation with foreign investors that are now commonplace throughout the developing regions of China. In pursuing these policies, the SEZs recorded startling high rates of economic growth.

In 1979, Shenzhen – the biggest and most successful of the SEZs which also include Zhuhai and Shantou in Guangdong, and Xiamen in Fujian – had a population of 320,000 and was one of the poorest localities on the mainland. Today it is the richest area in China with a population of 2.2m. Its per capita income, at more than Yn10,000 ($1,720), is nearly seven times the national average of Yn1,540.

Shenzhen has grown at breakneck speed. From 1980 until 1992 its gross domestic product rose by an annual rate of 46 per cent a year – making Shenzhen one of the fastest growing micro-economies in the world for which data exist. During the same period, industrial output expanded at an annual rate of 61 per cent, and exports by 63 per cent a year.

Mr Chen Biao, deputy director of Shenzhen's Planning Bureau, says: "We have a planned economy, but we have grown very fast. We call it 'Shenzhen-style speed'. [With output growing] at 40 per cent a year, we are quite happy.

"Our target is to turn Shenzhen into an export-oriented SEZ for advanced industry and services – a socialist Hong Kong with economic prosperity and an adequate legal framework, to borrow the words of Deng Xiaoping."

"Shenzhen-style speed" would not have been possible without the latitude the Chinese central government gave the SEZs to determine their own economic development. Of this, the most important was administrative decentralisation.

Allied to preferential tax and foreign investment policies, decentralisation of decision-making power allowed the authorities to cut through much red tape. It also gave full play to the "pragmatism" and "flexibility" for which Chinese officialdom has recently become famed.

This was recently underlined when the financing of the Yantian container port – one of China's five strategic deep water ports – on the west coast of Shenzhen, was unveiled. The Yn500m ($86m) first stage development will be owned and funded 70:30 by Hong Kong investors and a Shenzhen-owned company.

As the SEZs, and Shenzhen in particular, developed they have also benefited from high level political backing from China's military-industrial complex. Shenzhen has become the window on the world for many of China's so-called "third line" industries – the military complexes that were transferred to regions deep in China's heartland in the 1950s and 1960s to protect them from the then perceived US threat.

Across the Pearl River estuary in Zhuhai, a similar story of rapid economic growth and big plans for future development can be told.

Both localities are feeling the pinch induced by the central government's tightening of monetary policy. Idle, half-developed, building sites are, however, a more common sight in Zhuhai than in Shenzhen.

Of larger significance to the two SEZs – in particular Shenzhen – is that costs of land and labour have risen in line with the growth in their respective economies. Both run the risk of pricing themselves out of the market.

Officials on both sides of the Pearl River are aware of the danger. They are now talking about the next stage of development, which envisages a growth in services such as banking and finance, and a growth in high-technology and less labour-intensive industry.

Shenzhen has an ambitious plan to re-orient its economy. The city's planners want to turn Shenzhen into China's main export and foreign exchange earnings centre and a base for advanced technology, banking and finance. To date, however, there is little sign that foreign investors view either Shenzhen or Zhuhai as places to locate high-tech industries – most foreign investment is directed at infrastructure projects, and assembly rather than original manufacturing or research and development.

Simon Holberton

■ DEVELOPMENT ZONES

Ambitious targets

THE AMBITIONS of Chinese provincial governments are on display in their development zones. In Yantai, on the Shandong coast, a gaudy banner proclaims that the "investor is god," and in Dalian, in the north, a billboard sets the goal of "building a world class yacht club."

Development zones are the greenfield sites in which local officials have let their imaginations flourish. State-run banks have built lavish buildings, developers want a "millionaire's row" of luxury villas, and vacant stretches of land are enthusiastically described as a Chinese silicon valley.

Beijing disapproves of the provincial passion for development zones, and closed 1,000 of 1,200 opened in eastern China. Village administrations had followed the trend started in 1984 by clearing farmland for their own zone, which stirred old fears about wasting scarce financial resources and the disappearance of agricultural land.

Mr Gu Hong, deputy director of the Suzhou National New and High-Technology Industrial Zone, emphasised that his zone is "approved by the State Council" the Chinese government. On the morning of the Financial Times tour, the toilets at the zone's offices were perfumed and a meeting room prepared for a visit by Mr Wang Bingqian, the former finance minister and state councillor.

"There are 52 development zones approved by the State Council, and that means that the government thinks these areas have conditions suitable for a zone," says Mr Gu. "The benefit of approval is that the state will provide funds for investment and encourage large enterprises to come here. It also means that we have a preferential tax policy."

The government of Suzhou, traditionally

Tuning up for business: pianos being tested at the Yantai Development Zone

known for its silk, ornate gardens and canals, describes the zone, approved last year, as the third stage of the city's development, and has built an elaborate model capturing the vision of universities alongside high-tech factories in tree-lined streets. Mr Gu says that the 16sq km of the zone has agreements for 130 ventures involving $1.3bn in investment, 68 per cent of which is foreign. The zones has attracted Philips, which has a television project, Upjohn, the US pharmaceutical company, and Acer, the Taiwanese electronics company.

At the Yantai Economic and Technical Development Zone, the boast is that the local bureaucracy will process a joint venture application within an hour, "even if the forms are incomplete." Given Chinese officials' love of finding fault with documents, the boast is even more remarkable than the zone's new *karaoke* bar, opened in an old Air China jet parked beside the beach.

Mr Tian Fengcheng, vice director of the Yantai zone, said contracted investment in the zone has risen from $360m in 1991, when much of the infrastructure was in place, to $700m last year and another $700m in the first nine months of this year. Around 35 per cent of the money is from non-Chinese companies, but the zone is falling behind the Dalian zone, to the north, which been particularly successful in luring Japanese investment.

"We find it easier to deal with US and European companies than Japanese companies," says Mr Tian. "Our Japanese friends are becoming more interested in Yantai, but they want very big profits and they pay a lot more attention to details."

In Dalian, 20 Japanese companies, with the assistance of the Ministry of International Trade and Industry (Miti), have set up their own development area.

Robert Thomson

■ PROVINCIAL FOCUS: SICHUAN PROVINCE

Full speed ahead

SICHUAN'S provincial government is keenly aware of the massive influx of foreign money which has fuelled industrial growth in China's southern coastal regions. The governor, Mr Xiao Yang, is determined to catch up.

The province has one-tenth of China's 1.2bn population but only 6.5 per cent of gross national product and 6 per cent of the country's farmland. Development of an already substantial industrial base is essential both to soak up surplus farm labour and to boost living standards. Mr Xiao's aim is to double the province's per capita income from the current 650 yuan by the year 2000.

Sichuan, birthplace of Deng Xiaoping, was a testing ground for reform in the late 1970s when Mr Zhao Ziyang, the former premier, was the province's party secretary. Its 90m peasants were early beneficiaries of agricultural reform and of township and village enterprises, the low-technology industrial ventures introduced to absorb farm labour. "Now the peasants can get food and clothes but the situation is still not so satisfactory," the governor says.

Township and village enterprises employ 30m people, a quarter of the province's population, but Mr Xiao's aim is to double the figure. "To fulfil this target, we need a huge investment," he says. Sichuan, like other provinces, needs huge improvements in infrastructure and is weighed down by the behemoths of central planning: grossly inefficient state-owned enterprises which need reform and investment in new technology.

Mr Xiao estimates that to meet his development targets, Yn36bn of investment is needed each year and would generate 10 per cent annual economic growth. The provincial government itself can find Yn24-26bn, he says, enough to generate growth of 7 to 8 per cent per year – modest by current Chinese standards. The rest must be sought by raising additional financing, from its own citizens, foreign investors or elsewhere.

Over-enthusiastic attempts by local officials to raise money led to a crisis in the spring. Farmers became upset on two counts: local governments imposed a series of taxes and charges to fund projects such as new roads; and money provided by the central government to pay farmers for their produce was diverted into real estate speculation by officials who issued IOUs to the farmers instead of cash. Farmers were unimpressed by protestations that the real estate would produce a substantial return for their communities.

THOUGH the practices were not unique to Sichuan, the province suffered the most severe consequences with riots and violent clashes which resulted in the dispatch of armed police as well as teams of officials to crack down on corruption. Mr Xiao says the tensions have now been resolved.

Though there may still be poverty and unhappiness deep in the countryside, there is every sign of rampant growth in and around Sichuan's two key cities of Chongqing, an industrial port located at the meeting of the Yangtze and Jialing rivers, and Chengdu, the capital. Crane-filled skylines and busy shops and restaurants underline the flowering of commercial activity.

Chengdu boasts its first underground shopping centre. A subway is planned under its boulevards. Though a large statue of Mao Zedong waves a regal hand over the main square, he would be appalled at the vibrant commercial activity he now surveys.

The streets of Chongqing – which, because it is built on steep hills, has almost no bicycles – are clogged with traffic. A subway is planned there too and, local officials say, will be unaffected by financing problems because it is to be funded from Hong Kong.

"Chongqing is not like other places," says Mr Chen Yuanhu, vice mayor. "It is one of China's oldest industrial centres, with a huge base of industry. What we want to do is to make good use of money to develop key projects, not smaller ones."

Chongqing's motorcycle industry, producing one-third of China's output, is an example both of how the enterprises' problems can be tackled and of what is still to be done.

Out of an arms factory in the huge Norinco group has come China Jialing group, where 12,000 employees turn out 18 per cent of Chinese motorcycle production under a technical agreement with Honda. Jialing plans to double output to 1m cycles by 1997. It is profitable. But officials appear vague about precise components and use of profit, as well as about its shareholding structure. Little progress has been made towards dismantling the "iron rice bowl" commitments to the welfare of employees and their families.

Meanwhile across the Yangtze river at the Chongqing Economic and Technological Development Area, the new China is being built at a feverish pace. Plots are being cleared for factories, even if much of the building actually in progress, including villas for expatriates, is for residential use. Some 150 enterprises involving foreign participation have signed up for the zone, with $360m of foreign money committed.

Alexander Nicoll

■ CENTRE/PROVINCIAL RELATIONS

Looser controls from Beijing

MR LIU ZHONGLI, China's finance minister, found himself this summer in Zhejiang and Fujian provinces on the south-eastern coast. Sent by vice-premier Zhu Rongji to help in enacting measures to slow down rampant economic growth, he was shocked at what he saw.

"In one place the government was planning to establish ten golf courses," he said in an interview with the Financial Times. In another, the local government had unilaterally lowered the tax on enterprises, which had in turn reduced the revenue coming to his ministry.

Mr Liu and other top officials dispatched by Mr Zhu found that many local governments had used money advanced by Beijing to pay farmers for their produce had been diverted into real estate speculation. The central government was forced to advance Yn2bn to help pay off IOUs given to farmers, which had caused widespread unrest including riots in Sichuan province.

The economic boom's wilder excesses, which Mr Zhu has been seeking to curb, are a result of increasingly decentralised management of the economy.

Looser controls from Beijing have allowed provinces to develop rapidly and provide powerful engines for growth. Coastal provinces such as Guangdong, Fujian and Zhejiang have benefited enormously from massive inflows of investment since their economies were liberalised and opened up during the 1980s.

However, privileges granted to the coastal regions have prompted other provinces to compete, particularly after Mr Deng Xiaoping, China's leader, endorsed rapid growth early last year. They have sought to boost local economic growth and tax revenues so that they could, for example, finance much-needed improvements in infrastructure.

Local authorities which have offered incentives and finance indiscriminately, particularly for real estate development, are a key target of Mr Zhu's measures.

This confrontation is likely to heighten tensions which have already arisen because of the widening gaps in living standards between different regions. Money pouring into the booming south for real estate or other investment has actually contributed to a transfer of resources from poor to rich provinces.

Statistics show that the provinces which have improved living standards most are those which have managed to:

□ Lower the proportion of state ownership by boosting non-state industries.
□ Intervened the least in micro-management of the economy.
□ Hung on to the most tax revenue.
□ Attracted the most foreign investment.

THE BIGGEST source of tension between Beijing and provincial capitals is the breakdown in orderly fiscal relations. Until 1980, all revenues were remitted to Beijing and then distributed back to the provinces according to the spending requirements set under central planning. The various arrangements which replaced that system have degenerated into *ad hoc* annual contract negotiations with each province, to Beijing's increasing disadvantage. The govrenment is sensitive to these problems and is taking a number of steps to counter it:

□ Inland provinces have been opened up so that they can offer investors the same privileges as those on the coast.
□ Mr Zhu's 16-point programme to rein in economic growth, announced in July, seeks to re-establish macro-economic and monetary control particularly by curbing excessive lending activities of provincial branches of banks including the People's Bank, which is to become a full-fledged central bank.
□ A new tax-sharing system between the centre and the provinces is intended to come into effect next year.

Mr Xiao Yang, governor of Sichuan, the most populous province with 120m people including 90m peasants, said in an interview that the Zhu programme will "be good for the development of economic life because it will balance investment between the provinces."

Asked about political tensions arising out of widening income gaps, Mr Xiao – who is a firm adherent of faster economic reform – says: "I think this is a very big problem. The difference between coastal and inland provinces should be narrowed. If the country wants to maintain high-speed development within a reasonable structure, we should find measures to deal with the problem."

Most provincial officials agree that Mr Zhu's measures to deal with overheating are good, but deny that excessive speculation is a problem in their particular area. Mr Lin Dezi, vice-director of the Yantai economic commission, says: "The influence of the macro-economic controls has not been very great in Yantai. There were a few signs of overheating, but we maintain strict control ourselves on development, so there is no obvious adverse impact."

Mr Chen Zhenggao, vice mayor of Dalian, says "this is not an austerity programme – this is an attempt to exercise control over finance and things like illegal investments, which would be forbidden even in foreign countries."

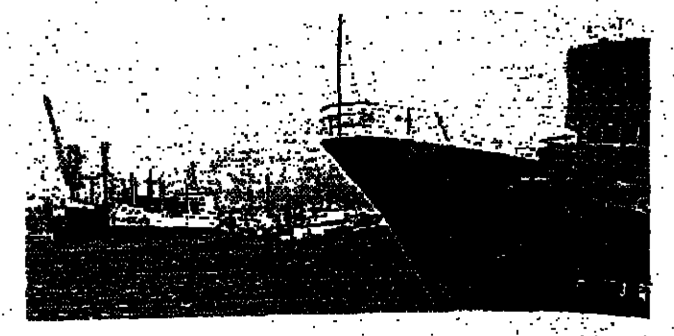
However, there are indications that the Zhu programme has aroused opposition in the provinces which have forced its austerity to be toned down. Mr Wei Liqun, secretary general of the State Planning Commission, said Mr Jiang Zemin, China's president and communist party general secretary, and other leaders have been touring provinces since late September to reassure local leaders that controls on the economy will not be too tight.

"Our leaders wanted to see the effects of the macro-economic controls and to reassure provincial leaders. The local leaders didn't criticise the central policies, but they made some suggestions," says Mr Wei. Economists at the International Monetary Fund, in a recent paper entitled *China at the Threshold of a Market Economy*, point out that it may be difficult for other provinces to replicate the extraordinary growth of Guangdong province. They note that exports have contributed a large part of its growth, that proximity to Hong Kong and Macao has boosted foreign investment, and that its role as a laboratory for reform has allowed it to be more aggressive in reforming the economy than other provinces.

Alexander Nicoll and Robert Thomson

Opening to the outside world

Below, and on the following two pages, FT correspondents look at China's growing links with the international business community, plus the increase of foreign investment in to China



■ FOREIGN INVESTMENT IN CHINA

Big surge of interest

THE gold rush of foreign investors into China has taken on enormous proportions this year. According to official figures, actual investment in foreign-funded projects during the first nine months of the year exceeded $15bn.

In the same period, the Beijing government approved 62,789 projects involving foreign participation, with a contracted value of more than $83bn, a 171 per cent increase on the first nine months of last year.

The figures so far this year compared with agreements signed in 1992 worth a total of $68.5bn, and actual foreign funds flowing into the country of $11bn, more than double the totals for 1991.

Such statistics have to be treated with caution. Equity from the Chinese side is often included in the value of projects, exaggerating the size of the apparent inflow. Some investment comes from inside China but is directed through offshore companies to win tax advantages. Many agreements will not be put into effect.

Nevertheless, interest from abroad is easily visible to anybody visiting China's leading cities. One western diplomat says: "We get hundreds of faxes from companies saying 'we're sending our top corporate team'."

The ventures which the latest visitors will eventually negotiate will spread investment well beyond the dynamic, but increasingly clogged and expensive, coastal regions.

Ethnic Chinese business from outside China – from Hong Kong, Taiwan, south-east Asia and the US – dominates the flow of foreign capital into China. Though most ventures have been in light industry and concentrated in the south – representing a shift in the manufacturing workforce from other Asian countries into China to take advantage of cheaper labour – Asian-funded projects are growing in scale.

Most of the region's ethnic Chinese captains of industry, such as Hong Kong's Mr Li Ka Shing, Indonesia's Mr Liem Sioe Liong, and Malaysia's Mr Robert Kuok Hock Nien, are pouring money into huge projects. Singapore is planning to build whole cities in China.

China's priorities for new investment focus increasingly on improving infrastructure

However, most significant western and Japanese companies also recognised long ago the potential offered by China's reforms and growth, and have set about establishing ventures.

Those that were there first are finding that they have a growing number of different operations in China and are seeking better ways to co-ordinate them.

Shanghai, where foreign investment has lagged and infrastructure is poor, is likely to benefit as the ambitious Pudong development area takes shape.

The overall tendency is likely to be towards bigger projects and concentration of investment in industrial parks where special efforts are made to improve infrastructure.

Meanwhile, indirect investment is growing through listings of Chinese companies on the Shanghai and Shenzhen stock exchanges as well as in Hong Kong, New York and most recently Sydney. A plethora of "China funds" – mostly investing a small proportion of their money in China itself – have sprung up to cash in on feverish investor interest.

However, because of the nascent state of Chinese stock markets and of the country's company law and accounting methods, direct participation in Chinese business will remain dominant form of foreign investment for years to come.

China's priorities for new investment focus increasingly on improving infrastructure, particularly power and transport.

The government has seized upon the build-operate-transfer formula, which has been used to a limited extent in the south, as an attractive means of bringing in foreign capital to big projects.

However, western companies are cautious since the BOT formula means having assurances about revenue streams in areas where price controls still exist.

The pressing need for China's industry is technology. Most joint ventures involve a form of technology transfer which means that the foreign investor is taking a risk in a country where there are worries about intellectual property rights.

However, the government has taken steps to protect copyright as well as to give fairer treatment to foreign-funded enterprises.

Mr Miao Fuchun, spokesman of the Ministry of Foreign Trade and Economic Co-operation, says: "Our general objective is to create a fair competitive environment according to the principle of the market economy.

"To ensure this, we must give equal treatment in such areas as taxation, tax rates, exchange rates, transport, communications and work procedures."

Improvement of the legal framework and greater transparency of regulations are important in bring Chinese practices close to international standards, Mr Miao says.

Nevertheless, China remains a very difficult environment in which to operate. Companies feel they must be involved in China's boom, but find that ventures take years of frustrating negotiations absorbing a great deal of management time, and that problems often arise once ventures have started up.

A commercial attaché at one western embassy says his message to arriving businessmen is: "For goodness sake be careful, and why weren't you here yesterday?"

Alexander Nicoll

Alexander Nicoll on practical issues for investors

The wise go well prepared

CHINA can be a daunting place for people who know little about the country but feel that they must not miss out on the business phenomenon of the 1990s.

Businessmen and consultants familiar with the country say that it is essential to take a long-term strategic view when establishing a presence in China. Success requires patience, perseverance and flexibility. Here we provide some advice on how to set about it.

Preparation

Define your company's goals. A vague idea that China is a big market in which you should be present is far from enough.

Objectives need to be established at the highest level and pursued with commitment – this is how Chinese enterprises work and your negotiators will not be on firm ground unless you do the same. This means defining the desired product of a venture, the targetted market, setting management responsibility at a high level and establishing where the project fits in to your corporate strategy. This will help to determine what structure would be the most desirable: a wholly-owned Chinese enterprise, an equity joint venture, a co-operative agreement or assembly contract.

Research should be done on government policies in your areas of business, since a venture will have a far greater chance of receiving strong backing if it is in line with official priorities.

Approaching the Chinese

Expect years to pass between your first contacts and the eventual start of operations. Chinese business and government work on an informal system of personal relationships, called *guanxi*.

This does not imply corruption – it is simply the way that things get done. Relationships need to be built over time, through repeated visits and often by arranging visits for Chinese officials and executives to your headquarters.

Do not reveal your full aims, ideas or requests for specific information until you have established these links. Remember that the people you meet are themselves constantly seeking to build *guanxi*. Over time you want yours to be as good as theirs, and this will help your negotiating position.

China's reform and expansion does not mean that there has been a radical change in practice within the bureaucracy with which you have to deal. Nothing can be taken for granted. At the same time, companies should be wary of wide public mood swings about China and keep their focus on conditions in their areas of business.

Choice of partner and negotiation

Choosing your partner is the most important decision. If your first contact is with a ministry, do not be too easily directed towards the first potential partner suggested. Work out who has relationships of patronage with whom.

Western companies are likely to choose state-owned enterprises as their partners because they have strong links with supervisory bodies, need injections of capital and technology, and are likely to be permanent fixtures.

Beware of a state-owned enterprise which is seeking to diversify out of out-dated products into areas it knows little about. However, you may judge an apparently unlikely partner to be the right one: for example, Baskin-Robbins of the UK Allied-Lyons group is opening ice cream stores in partnership with the China Satellite Launch and Tracking Control agency.

The most important criterion in choosing a partner is establishment of a correspondence of respective goals. The goals of each partner do not have to be the same, but they must not conflict and they must require mutual co-operation. This cannot be discussed too much.

You need to be satisfied that success of the venture is as important to your partner as it is to you and that you agree on the means to achieve it.

Part of the consideration of the right partner will be its location: infrastructure and costs must be assessed. Tax and other incentives offered to foreign investors are far more uniform across China than previously.

Understand on which documents the Chinese side places weight. A joint feasibility study conducted with official participation is more important than the earlier letter of intent. It is vital to ascertain who has the final say.

Contractual and legal issues

Views differ on the need for detail in a contract. Negotiations are the vehicle for nailing down detailed agreements on all aspects of a venture's business – such as shareholding structure, product, technology transfer, local content, whether products are to be exported, marketing, finance, tax, access to foreign currency, management, recruitment, training.

However, the resulting contract does not have the weight that it would have in the west because China lacks the necessary body of law as well as an adequate judicial system. Virtually anything is negotiable. Topics which had been closed can be re-opened. There would however be seeking of redress for breaches of contract through the courts. It is likely that the use of arbitrators will grow.

Patience is vital: getting about is not always easy

Management

Many foreign companies will insist that they appoint the general manager of a joint venture. Even if they do, it is important to keep cementing the friendship with the Chinese partner so that problems can be dealt with in a co-operative fashion as they inevitably arise.

After start-up, management is the key issue. Foreign companies will generally place an expatriate manager on site whose principal role will be helping to improve management practices. Chinese staff may have a high level of technical expertise but are unfamiliar with the concept of management responsibility and often view it as being risky to take the initiative and cut across bureaucratic practices.

This does not mean that foreign managers must simply attempt to impose western practices. They have to be patient and adaptable in attempting to deal with Chinese problems in a Chinese way, while increasing levels of efficiency and responsibility.

One foreign manager says: "If you've just got solutions, you're doomed to failure. You have to see what the problems are, and then try to solve them."

Contacts

A growing number of foreign consultants, law and accountancy firms have established offices in China and can provide considerable expertise as well as access to Chinese contacts.

Commercial sections of embassies in Beijing are good sources of information. In Britain, the China-Britain Trade Group (071 630 5780) is a useful place to start.

Interpreters

Good interpreters are essential and hard to find. Poor translation means poor communication. This will lead to verbal and cultural misunderstandings which could haunt a venture in future years, as well as failure to build the necessary understanding, friendship and trust.

Translators may weaken your points to avoid giving offence, which can both help and hinder negotiations. Good, sensitive translators are likely to take on a wider role as advisers on the attitudes of the people with whom they are negotiating, as well as a general source of information. Companies increasingly need to have executives who are fluent in Chinese.

Useful reading

For serious economic information, the World Bank has a number of important publications and the IMF recently published Occasional Paper No 107, *China at the Threshold of a Market Economy*.

Powerful, readable books include Jung Chang's *Wild Swans*, Nien Cheng's *Life and Death in Shanghai* and Amy Tan's *The Kitchen God's Wife*. Also interesting is Colin Thubron's *Behind the Wall*.

Historical overview is provided by Jonathan Spence, *The Search for Modern China*, and John King Fairbank, *The Great Chinese Revolution 1800-1980*.

A useful tale for investors is Jim Mann's *Beijing Jeep*. *Chinese Profiles* by Zhang Xinxin and Sang Ye is oral history. Geremie Barme and Linda Jaivin's *New Ghosts, Old Dreams* is a collection of modern writings. Fang Lizhi's *Bringing Down the Great Wall: Writings on Science, Culture and Democracy in China* gives a sense of the Chinese mind.

the very least Russia is likely to need World Bank help if it is to proceed.
In the Ukraine, unable and

Mr Remy Carle, ... the WANO governing board and deputy general manager of Electricité de France, told the

fuels and other factors ... which the nuclear industry has little control.

WHEN US President Bill Clinton and Chinese premier Jiang Zemin sit down together at this week's Apec summit, trade relations will be among the key items on their agenda.

In March, on a visit to Beijing, Mr Douglas Newkirk, the assistant US trade representative, spelled out the trade liberalisation measures which the US said were minimum condition for China to enter the Gatt.

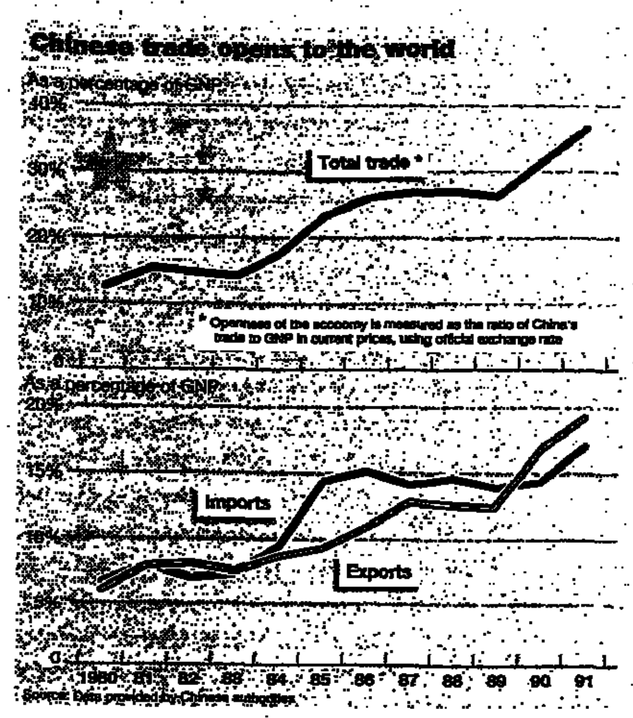
These included a single national tariff policy, full transparency of trade regulations, the gradual removal of non-tariff barriers and a commitment to move to a full market economy.

But the following month, President Clinton added to these list a string of political conditions upon which China must make "significant progress" before its Most Favoured Nation trading status could be extended, and thus, implicitly, before China could join the Gatt.

The conditions include the end of exports to the US of products made using prison labour, the release of political prisoners and adherence to the Universal Declaration on human rights. The World Bank estimate that failure to renew MFN status could cut Chinese exports to the US by between $7bn and $15bn.

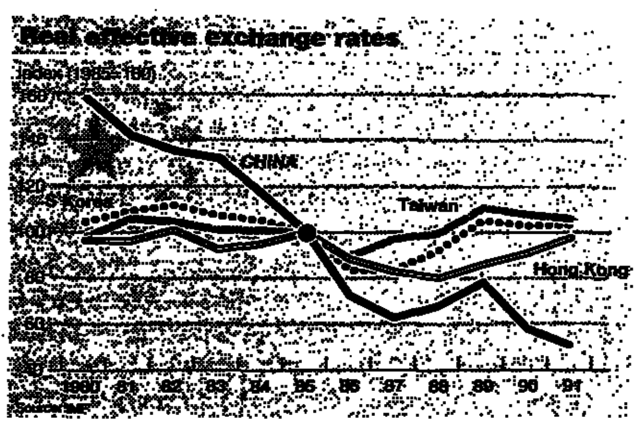
Chinese government officials can barely conceal their outrage – "it is already eight years since China applied for resumption of our contracting party status in Gatt and we have made great efforts to bring our trading system in line with others," says Mr Li Lanqing, vice-premier.

"The major obstacle is now the US. We are against linking political issues such as human rights with trade – these should be settled by political negotiations."



China's share of world trade has doubled in a decade

Astonishing record



IT is easy to see why the Chinese government in Beijing baulks at this explicit linking of trade concessions to political issues, such as human rights. While limited progress has been made on the latter since reforms began in 1978, open trade and export-led growth have been at the heart of its post-Maoist economic reforms.

Up to now, China's trade record has been astonishing. Exports volumes grew at an average rate of 12 per cent a year between 1980 and 1991, making China the world's thirteenth largest exporter in 1991, up from 26th place in 1980. China's share of world trade has doubled in a decade. Merchandise trade as a ratio of gross national product GNP, measured using the official exchange rate, has increased from 12.8 per cent in 1980 to 38 per cent in 1992.

China has gradually dismantled its restrictive trade regulations, allowed a substantial depreciation of the exchange rate and encouraged foreign investors and the growth of the non-state sector to take advantage of cheap Chinese labour. The result are reflected in the changing pattern of exports.

The share of labour-intensive manufactures in total exports has risen from 36 per cent in 1975 to 74 per cent in 1990, *while the share of capital-intensive manufactures* has fallen from 50 per cent to 19 per cent over the same period.

By 1990, 20 per cent of exports now come from foreign funded enterprises, while the share of township and village enterprises had risen from less than 5 per cent in 1985 to over 20 per cent. China still has a long way to go in replacing direct administrative intervention with indirect price measures and removing opaque regulations before it will have a liberal trade regime.

But the result of decentralised decision-making has been, according to the World Bank, to make China's trade system *de facto* more open than its 32 per cent average nominal tariff rate and the plethora of import controls, licenses and non-tariff barriers would suggest.

Western diplomats in Beijing, while complaining that China is not dismantling its quota system fast enough, say there are are encouraging signs. In the area of intellectual property, while enforcement has lagged substantially behind new copyright legislation and abuse is widespread, the government recently raided an illegal CD manufacturer in Shanghai.

Similarly, while China's trade regime is far from transparent, the trade ministry last month started to publish a periodic journal of regulations relating to foreign trade and stated that any state council directives which are not made public are henceforth invalid.

One sensitive trade issue in Sino-US relations, with textile quotas up for re-negotiation at the end of this year, is the illegal trans-shipments of textiles through Taiwan, Hong Kong and the Dominican Republic in order to evade China's trade quotas.

Officially, Hong Kong alone receives 54 per cent of China's total exports. But, according to the World bank, adjusting for re-exports raises the US share of Chinese exports from 8.7 per cent to 25.6 per cent and the EC share from 9.2 per cent to 19.2 per cent, while the Hong Kong share slips back to a mere 6.2 per cent.

Yet, regardless of progress on the trade front, the operative condition for MFN renewal is "significant progress on human rights." Mr Warren Christopher, US secretary of state, said last month that China still has a long way to go before significant progress has been made, a sentiment *that Mr Clinton is likely to* echo this week in Seattle.

Edward Balls

Accountancy and legal services are growing fast, reports **Lynne Curry**

Foreign firms move in

AFTER years of being rigidly controlled by the state and treated as irrelevant, accounting joint ventures and *foreign and domestic law firms* are experiencing an explosive growth in China.

The changes have been profound. In the face of a serious shortage of Chinese financial experts with a real understanding of the workings of a market economy, international accounting firms, in joint ventures with domestically-trained accountants, have moved to fill the vacuum.

"The idea has begun to be accepted that accounting is for business and not for the government, and that international accounting standards should be practiced in China," said Charles Feng, deputy manager of Arthur Andersen Hua Qiang, the accounting firm's joint venture here.

With the rise of accounting firms, the economy has also seen the emergence of a small group of well-connected domestic lawyers that work in independent co-operatives, with at least five attorneys, in what are better known in the west as partnerships – "these co-operative firms are good and became good quickly," says a western lawyer. "They are a bigger competitive threat than foreign law firms realise."

Within the last year, about 100-150 co-operative firms have been established nationwide with at least twenty based in Beijing, six in Shanghai, and two in Guangzhou.

Nearly all deal with commercial issues. Almost none handle criminal or civil cases. Their areas of expertise include financing commercial transactions, securities and listing advice, foreign investment and trade, real estate, commercial disputes, and intellectual property rights.

Co-operatives are dramatically different from China's more conventional state-owned law firms. Attorneys operate along western lines, working longer, more western hours, making far larger salaries, and assuming more individual responsibility.

For China, these "partnerships" are the wave of the future. State firms are losing many of their best attorneys to these new co-operatives with the result that state-owned law offices may gradually fade away *or be forced to change*.

With the emergence of independent domestic law firms, the role of foreign lawyers has slowly begun to shift. Although foreign law firms continue to offer legal, financial, and investment advice to both Chinese and foreign companies, some foreign lawyers are beginning to specialise more in legal consultations involving large business deals for Chinese companies overseas and for those Chinese enterprises seeking listings on the New York and Hong Kong stock exchanges.

But fundamental differences between

Overhauling China's accounting practices proves to be a boon to foreign accounting firms

Chinese co-operatives and foreign law firms remain. Foreign lawyers are not allowed to argue a case in court for their clients, nor are they permitted to give advice or legal opinions on Chinese law.

Despite the restrictions, foreign law firms are eager to cash in on China's increasing economic openness. Since the government has given official approval to foreign firms to operate here, there are now over 40 foreign law firms with offices in China, among them, such prominent companies as Paul, Weiss, Rifkind, Wharton, & Garrison, Denton Hall, Graham & James, and Coudert Brothers.

While foreign law firms compete with the newly established domestic co-operatives, they also frequently work closely with them on matters requiring vital personal Chinese connections and Chinese assistance in litigation and in arbitration.

Still, foreign law firms bring a certain analytical edge that the fledgling law co-operatives lack, according to western attorneys. "Chinese firms are not yet strong enough on analysis: it's an approach they haven't yet developed," a western lawyer observes. While lawyers *are rapidly moving to become the economy's* legal foundation, accountants have become the country's economic linchpin.

The government says Chinese state-run enterprises seeking foreign investment must adopt international accounting standards to make corporate bookkeeping understandable to foreign investors, and in the future, this will be broadened to include all Chinese enterprises.

Chinese accounting practices have followed the former Soviet model, where ownership and profitability were irrelevant in a centrally planned economy.

"In government-owned enterprises, you couldn't find the real owners," says Li Bichang, vice-president of KPMG Peat Marwick Huazhen. "The government is trying to use corporatisation to clarify ownerships. It is a difficult job."

The monumental task of overhauling China's accounting practices to bring them into line with a market economy has proven to be a boon to foreign accounting firms. All of the large multinationals are here and have ambitious expansion plans.

Under the new regulations, they have formed joint ventures with accounting firms that are linked either directly or indirectly with the Ministry of Finance. Previously, they were permitted to do consulting and auditing only for foreign joint ventures. Now, they are able to offer the same services to any Chinese enterprise. Their focus will remain, however, on serving foreign joint ventures and on those Chinese enterprises that are planning to be listed on Chinese, Hong Kong, or New York stock exchanges.

While accounting and law are forging ahead, insurance remains largely closed to foreigners. The multinational AIG is the only foreign company that has been given a license to operate in China. It can sell life insurance to Shanghai residents and write policies primarily for foreign investment enterprises.

Sino-US relations: report by Alexander Nicoll

Clinton seeks a new start

THE MEETING due to be held in Seattle tomorrow between President Clinton and Mr Jiang Zemin, China's president and communist party general secretary, could signal a new phase in the complex relationship between Washington and Beijing.

Though officials of both sides have been cautious about the meeting's likely outcome, China has called it a "Sino-US summit". Mr Li Peng, the premier, said earlier this month: "It conforms with the common interests of the two countries and is conducive to safeguarding peace and stability in the Asia-Pacific region for China and the United States to maintain a stable and constructive relationship."

Mr Clinton has set the tone for deeper links by embarking on a new multi-faceted approach to China in recent months.

On the one hand, he has set new conditions for next year's renewal of China's most-favoured nation (MFN) trading status – thereby creating new strains in the relationship and posing a severe threat not only to Chinese economic progress but also to US exports and imports. US officials insist that MFN status will be

Continued on next page

Industrial growth

Reform has come gradually to China's industry. Here, and on the following four pages, Robert Thomson, Tony Walker, Bronwen Maddox and Edward Balls chart the progress of key sectors

■ INDUSTRIAL REFORMS

Central controls are eased

Balancing rapid development and popular opinion appears to be the guiding principle of the government, reports ROBERT THOMSON

IN the early years of China's economic reform, factory managers and Communist party secretaries did their job satisfactorily if they expressed support for change and spiced their sentences with the language of newspaper editorials and internal party documents.

Reform has come gradually, sometimes erratically, but the accumulated change has altered the character of Chinese industry. Factory managers, whose tasks were neatly described in a state plan, are now aiming at the moving target of a market, and the government wants to peel away the welfare functions of the work unit, leaving a corporate core.

The nature of opposition to industrial reform has also changed. In the past, Communist party leaders fought over points of ideology on issues such as bankruptcy, but the reluctance of local governments to use the tool of bankruptcy now has more to do with angering workers and disrupting "social stability".

Ideological arguments have been settled by the success of reform, but the government is yet to solve some of the more difficult questions confronting industrial China. Many large state-owned companies are still soaking up subsidies to cover losses, and the "debt chains", the networks of unpaid debts in the state sector, appear to be lengthening again.

Smaller, collectively-run and private companies are diversifying into new areas with a passion, pushing up the national rate of industrial output, which rose 23.4 per cent in August, against a year earlier. But some of these new ventures are flooding the market with poor quality products that were a good idea last year but have already lost their niche.

Change is begetting change. Factories, such as the Shenyang Cable Works, now responsible for their own profitability, are experimenting with foreign exchange hedging for the first time. As Mr Wang Fuyao, vice president of Shenyang Cable, explained: "We import raw materials and we have been hurt by exchange rate fluctuations, so we set up a team to research the market and will begin operations next year."

For the first year in its post-revolution history, Shenyang Cable says that products are not sold at a discount for special state projects, and the company has decided that it must trim 1,000 from its 12,600 workforce. But the factory's suggested solution to that awkward problem is typical of the central government's response to reform's unresolved contradictions.

"We, in the management, are not going to decide who should be among the 1,000. We will let the workers decide among themselves. For example, if 600 people are in a certain workshop, we will say that there should be only 550 and let the workers select who the 50 will be. Then we will approve their decision," says Mr Wang.

Poor quality goods that were a good idea last year flood the market

Similar difficult decisions are being faced and avoided in factories throughout the country. The "responsibility system," introduced after early successes in reforming agriculture, has taken hold, but factory managers and the Communist party leadership are still ready to pass the parcel of responsibility, which hinders the identification of worrying trends in industry.

Debt chains were hurting industry many years before Mr Zhu Rongji, the vice-premier, was called in to clean up the mess. And, for example, the New Asia General Corporation in Yantai, on the east coast, has been awarded the title of "Star Unit" by local officials for expanding into business area in which it has no expertise and, in some cases, almost no hope of success in already overcrowded markets.

But the 2,000 workers, many of them farmers turned factory managers, have built on the early success of a steel plate factory, creating 18 subsidiaries, which churn out instant noodles, mineral water, lifts, and "biochemicals". Like other work units, they have just ventured into the hotel and taxi business and are building a cluster of villas on a nearby hilltop.

Asked which is the most profitable of the businesses, Mr Li Xueben, a vice general manager at New Asia, sighed and said: "The steel plate factory. The production scale at that factory is the largest and the prices are good. The food and drink markets in China are very difficult, but we hope to make a profit with our Xinxin noodles this year."

The relaxation of central control, and the rapid expansion of companies such as New Asia, explains the fall from 12 per cent to 6.5 per cent in the proportion of planned industrial output this year. As well, there was "guidance" in the form of estimates for about 25 per cent of production, compared with 34 per cent a year ago. China's government has allowed markets to flourish and encouraged competition, but some of the country's largest companies and their managers are ill-equipped for these new conditions. About 31 per cent of state-owned factories reported losses in the first half, but the actual figure is probably far higher, as accounting is one sector still in need of reform.

In Shenyang, the northern heart of Chinese heavy industry, the municipal government estimates that 38 per cent of factories in its care are losing money. The government has asked for extra central funds to ensure that these companies, which double as welfare institutions, can continue to provide housing, kindergarten and leisure facilities for their unwieldy workforces.

Company housing reform began six years ago, but stalled because local governments are reluctant to push rents to levels that make the purchase of a home an attractive alternative. When reform began, debate about the rights of ownership in a socialist country distracted officials, but now the party is hesitant because of its fears of instability.

Balancing rapid development and popular opinion appears to be the guiding principle of the government, but some officials and factory directors are still inspired by ambitious industrial output targets of a kind that once excited Chairman Mao Zedong in his rush for growth. However, in searching for role models, Chinese officials are looking elsewhere.

Mr Cai Weici, deputy director of the Ministry of Machinery Industry, has turned to Japan and its Ministry of International Trade and Industry for an example in guiding Chinese companies: "Their experience is very inspiring. We have done very careful research on how they handled the period of rapid growth and the reform of industry. We are like Japan in the 1960s."

Bold plans to sell-off state industries

Pain in the provinces

Officials in Beijing are debating ambitious proposals for large scale sell-offs of state enterprises

Oil workers drilling in China's western Tarim Basin Picture: Dennis Owen/Reuter

WHILE the debate goes on in Beijing, the reform of state industry is a painful struggle in the provinces between factories and the local government officials who have traditionally ruled over industry.

A year ago, the Chinese government introduced "regulations on the transformation of the operational mechanism of state-owned industrial enterprises," which were supposed to clarify the rights and responsibilities of factory managers, and contribute to the gradual commercialisation of the state sector.

But a government research team dispatched to review the impact of the regulations has found that local machinery and other industrial departments are reluctant to let go of their control over the factories, particularly those not large enough to have a network of influence in Beijing.

Mr Zhu Rongji, the vice-premier, was expected to raise this issue at a meeting of the Communist Party's central committee which began last week, and also wanted delegates to approve the widespread auctioning of small and medium-sized state factories, intended to shift some responsibility for loss-making companies away from the state.

Mr Zhu is concerned by a separate obstacle to the party's attempts to turn state industries into corporate entities, similar in responsibility, if not ownership structure, to a western company. Chinese ministries and their myriad, sometimes loosely-linked departments and branches have been spinning off new companies at a remarkable rate, again blurring the lines between government and industry. One reason for the backlash against Mr Zhu's efforts to cool the economy is that it has hurt these newly-emerging companies, involved in everything from property development to the personal computer trade. The government departments were annoyed that bank lending slowed just as they were reaching for their piece of the action.

But these government departments and their corporate ventures are competing unfairly against established companies and other new entrants. They are often responsible for issuing business licences, a privilege they are prone to abuse, and they control state funds for their industry, which is naturally kept in the corporate family.

In the longer term, the government is planning to shift the welfare functions away from state factories, for example, by encouraging home ownership and establishing a public insurance scheme that will cover the cost of welfare benefits. These reforms remain experimental, and, as a northern Chinese factory manager complained, he has to pay market rates for raw materials, and still provide all the old social services.

If the responsibilities of Chinese companies become more corporate, then the government will be able to introduce an ownership scheme, proposed by a group of young Beijing economists, which would create four distinct types of shareholders, and ensure that the companies can still be called state-owned. Shares will be held by a state investment fund, linked to the present departments responsible for industry, and there will be cross-ownership by suppliers and friendly companies similar to the Japanese *keiretsu* system, as well as sales of shares to employees and investors.

Robert Thomson

Tony Walker reports on the dramatic expansion plans of an engineering giant

Shougang has international ambitions

A VISITOR to the Capital Iron and Steel works in Beijing's western suburbs is left in no doubt as to the most important event in the steel giant's recent history. The entrance foyer of its reception pavilion is dominated by an outsize portrait of Mr Deng Xiaoping, China's supreme leader, visiting the plant on May 22, 1992.

Shougang could hardly have hoped for higher-level endorsement of its ambitious expansion plans, both in China itself and internationally. Indeed, the story of the company and its high-level connections provide a valuable insight into the workings of an opaque Chinese system.

Within weeks of Mr Deng's inspection visit, State Council, or cabinet, approved a fairly dramatic expansion of Shougang's charter, including the establishment of the China Shougang International Trade and Engineering Company, and the granting of a coveted banking license.

According to company literature, Shougang is now empowered to "engage directly in import and export business, set up plants and run joint ventures abroad, undertake engineering contracts abroad and conduct labour services. Shougang was also empowered to operate business in the fields of finance and foreign trade." There is little, it seems, that Shougang cannot do.

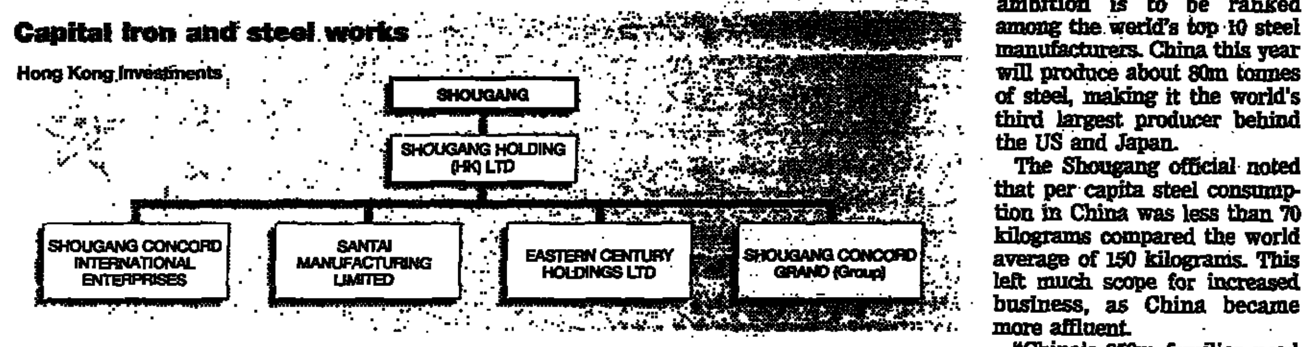
China this year will produce 80m tonnes of steel Picture by Hugh Routledge

Mr Pan Huanyuan, Vice President of International Operations and a Shougang board member, said that the company's ambition was to become a "trans-national enterprise". A decision to accelerate the expansion of its activities abroad had been taken by directors late last year.

In fact, Shougang, which ranks as China's fourth largest industrial enterprise and third biggest steel producer, had already signalled its ambitions in the international market place.

Through its wholly-owned subsidiary Shougang Holding (Hong Kong) Ltd, it had begun swooping on a clutch of listed Hong Kong companies, and in the process forged some powerful alliances, including partnership with billionaire Li Kashing in a steel company – Shougang Concord International Enterprises, previously known as Tung Wing Steel Holdings.

Other Hong Kong investments include interests in a metals trading company, an electronic-component manufacturer and a property company. Among partners in the property company, known as the Shougang Concord Grand (Group) is Mr Deng Zhifang, the son of Mr Deng Xiaoping himself. These connections will have done no harm to Shougang's global ambitions.



Shougang's move into Hong Kong has enabled it to secure "back door" listings on the local stock exchange, opening up prospects of the steel giant transferring some its mainland interests to these listed companies. The company's Hong Kong investments will also facilitate additional capital raising in the local market.

Mr Pan says that in selecting Hong Kong as a "fortress" for its international ambitions, Shougang was mindful of its advantages as a "centre of finance, information and communications." But he also made it clear that the company was intent on seeking opportunities in the wider world.

"Shougang is interested in everything, although, of course, we are not interested in running a cemetery!" he declares.

To this end, the company took control of the Mesta Engineering Company of the US in 1988, and last year it purchased an iron-ore mine in Peru for U$120m. It is now looking for further investments in the mining sector in places like Latin America, Australia and South Africa.

In China itself, the company began in 1979, after reaching agreement with the authorities on a new "responsibility system" under which it was allowed to retain a share of its profits for re-investment, diversifying into such areas as construction, real estate, electronics, ship-building, shipping, the manufacture of auto parts and textiles.

Shougang's employees number 280,000, the majority of whom are engaged in either operating the company's iron-ore mine near Tangshan, north of Beijing, or at the Beijing plant which resembles a small town with 60-70,000 people resident there, and engaged predominantly in steel-making activities.

Steel-making accounts for about 80 per cent of Shougang's profits which are expected to reach Yn4.6bn (US$807m) this year, compared with Yn299m in 1978, the year before the introduction of the responsibility system of profit-sharing with the state.

Steel-making would remain the focus of Shougang's endeavours in spite of its diversification strategy, said Mr Pan. The company expected to lift production to 8.8m tonnes of steel by the end of 1994, up from 5.7m tonnes in 1992.

At present, the steelmaker ranks third in production behind the Anshan works in Liaoning province, but plans to be number one in China by the end of the century. Another ambition is to be ranked among the world's top 10 steel manufacturers. China this year will produce about 80m tonnes of steel, making it the world's third largest producer behind the US and Japan.

The Shougang official noted that per capita steel consumption in China was less than 70 kilograms compared the world average of 150 kilograms. This left much scope for increased business, as China became more affluent.

"China's 250m families need more and more steel products," he says.

Apart from its Beijing plant which will reach its maximum production capacity of 10m tonnes by the turn of the century, Shougang is planning a giant new steel-making facility in Shandong province, south-east of Beijing.

In partnership with Mr Li Kashing's Cheung Kong Holdings, the company will invest Yn22bn in the first phase whose production would reach 5m tonnes annually. A second phase would double capacity to 10m tonnes. Shougang could not be accused of lacking ambition... or connections.

A fresh approach by the US

Continued from previous page

revoked if there is not significant progress on human rights, trade and nuclear proliferation issues.

The US has also stepped up pressure on China by imposing sanctions because of weapons sales to Pakistan. Relations were further impaired by US pursuit of a Chinese ship it suspected of carrying poison gas ingredients to Iran. An inspection found no trace of them and China demanded an apology.

But on the other hand, Mr Clinton has sent a number of top officials to Beijing to engage China in much higher-level discussions on issues such as trade, human rights, agriculture and military matters.

The US agriculture secretary, Mr Mike Espy, last month became the first of Mr Clinton's cabinet to visit Beijing and senior officials from the State and Defense departments as well as the deputy US Trade Representative have all held talks there.

This contrasts with the approach of the Bush administration, which substantially reduced official contacts after the 1989 Tiananmen Square killings but resisted congressional pressure to set conditions on MFN renewal.

The Bush approach provoked fierce criticism from congress members concerned about human rights, but also caused alarm among academics and businessmen who saw Washington failing effectively to address China's growing economic power and regional influence.

The new US tack is an attempt to construct an overarching policy of engagement with the aim that issues which are thorny, such as trade and human rights, become simply part of a much broader relationship and lose the high profile which hampers progress upon them. It recognises not only China's sheer complexity but also its rapid economic development, in which US business is deeply involved, and its growing regional links.

China insists that trade and human rights should be treated as separate issues

Recent contacts have been friendly and US officials see scattered signs of progress, for example on specific trade issues such as pirating of copyright. China has undertaken to publish all regulations relating to trade in a new official gazette, removing the bugbear of secret rules. There are hints of a closer understanding on implementation of a memorandum on prison labour.

However, in spite of these indications, US officials are also at pains to make clear that the threat of MFN termination is real. Mr Warren Christopher, secretary of state, told businessmen last month that MFN could not be renewed next June unless there was steady and significant progress on human rights, trade and nuclear proliferation.

The US demands are mainly general. But US officials said specific progress must be seen in implementation of the memorandum on exports of prison-produced goods, and on the granting of passports to eligible Chinese citizens who wish to travel.

The picture as seen from the US is mixed. China is thought to have freed most of the dissidents who were arrested for their 1989 activities in the Tiananmen Square demonstrations, and has released some other dissidents. However, it also launched a further round of arrests of dissidents and reporters and new trials are expected soon.

Against the greater freedom of speech now evident in China must be set a recent official announcement which could signal a clampdown on satellite receivers which allow millions of Chinese to watch the Hong Kong-based Star Television network and other satellite broadcasters.

China's view of these issues starts from an entirely different position and results in vehement rejection of the US approach.

The Beijing government's concerns are principally domestic, with its main foreign policy objectives being preservation of its borders and the development of friendly relations with all countries so as to permit continued economic development. It believes that development of the economy takes precedence over pursuit of a western concept of human rights. Beijing rejects the idea that a developed China poses a threat to the world as "shallow".

It says that trade and human rights are separate issues which should be treated as such, and that MFN is normal practice rather than a favour for the US to grant.

Termination of MFN status would be a double-edged sword, says Mr Wu Jianmin, foreign ministry spokesman. "Both China and the US will be hurt," he says, pointing out that the two governments have common interests in economic development.

"A lot of Americans do not really understand much about China," says Mr Wu. "Quite often there is a gap between people's perception and reality."

Mr Wu wants closer contacts including further visits by US senators and congressmen. When they visit, he says, they "come to realise that we are not talking about human rights on the moon or in a vacuum. We are talking about human rights on the earth."

■ HONG KONG/TAIWAN

Challenges ahead

AS 1993 draws to a close, China faces mounting challenges in its attempt to regain sovereignty over Hong Kong and Taiwan.

Its negotiations with Britain about Hong Kong's political development have gone badly, raising the possibility that the much sought after "smooth transition" in 1997 from British to Chinese rule will be unattainable.

Across the straits on Taiwan, the island's political social development is leading it further away from reunification with the mainland, in spite of growing economic relations which are pulling the two economies closer together.

One of first tasks Mr Deng Xiaoping, China's senior leader, set himself on his return to power in late 1978 was to deal with these two problems which were left unresolved by the communists' assumption of power in 1949.

China's revolution was strongly nationalistic in character. The British and Portuguese colonies of Hong Kong and Macao were symbols of past humiliations by foreign powers. Their existence for most of the post-war period was tolerated because of the access they afforded China to the outside world in the aftermath of its enforced isolation following the Korean War.

Taiwan was a different matter. It housed the remnants of the Kuomingang (KMT, Nationalist) government which the communists had defeated in a civil war which raged in earnest from 1945 until 1949.

Both issues, however, came together under the rubric of "uniting the motherland." Mr Deng's solution to these two different problems, "one country, two systems," was propounded in 1979 and first applied to Hong Kong (and later Macao).

Today, Chinese government officials in charge of Hong Kong and Taiwanese affairs face very different problems, problems which reflect the relative strength in both areas.

Those in charge of Hong Kong evince confidence in their ability to manage the colony in the absence of agreement on Hong Kong's political development. They draw comfort from the enmeshing of Hong Kong's economy with China's and from the colony's aversion to confrontation with Beijing.

CHINA has said that if Hong Kong's political development proceeds without its consent then, come 1997, it will hold fresh elections for the 60-strong Legislative Council, the colony's law-making body. It has also threatened British economic interests in Hong Kong and on the mainland while at the same time promising to safeguard Hong Kong and Chinese economic interests.

In July, China set up a "preparatory working committee" consisting of mainland officials and a selection of Hong Kong plutocrats. Its role is to provide detailed advice to a "preparatory committee" – which comes into being in 1996 – on all aspects of Hong Kong's political, social and economic life.

Mr Lu Ping, director of the Hong Kong and Macao Affairs Office of the State Council (or cabinet), says: "If there is no agreement, which we do not want to see, Hong Kong will still go on and continue to be prosperous and an international financial centre... Hong Kong will not collapse."

For officials in charge of Taiwan the situation is radically different. In spite of this year's thaw in relations, which saw an historic meeting of mainland and Taiwanese officials in Singapore in April, Beijing officials admit that Taiwan holds the cards in dictating the pace of contacts and eventual unification.

Mr Zhang Ming Qing, a senior official at the Office of Taiwan Affairs in the State Council, says: "I should not say that we have acquiesced in slowing down the talks [about reunification], but there is nothing we can do. It largely depends on them [the Taiwanese government] whether they want to sit down and talk."

□ Regional trade issues: the presence in Seattle of Mr Jiang Zemin, China's president, for this week's meeting of the Asia Pacific Economic Co-operation (Apec) forum is of more than just symbolic importance. It underlines China's growing role as a political and economic superpower in the region.

In terms of regional trade politics China is keen to cloak itself in the banner of free trade and will resist turning Apec into an Asian version of the European Community.

Mr Wu Jianmin, spokesman for the Chinese foreign ministry, says: "We see Apec as an open trade bloc, rather than a closed one. We are not in favour of an exclusive, formalised trade bloc but one open to all."

A little over a decade ago China's trade with the members of the Association of South East Asian Nations (Asean) was $800m; today it stands at more than $8bn.

The combination of China's open door policy and the enthusiasm of the estimated 40m overseas Chinese – most of whom live in the region – for mainland investments will help underwrite further rapid expansion of regional trade in the coming years.

China has sought strenuously to build relations with other Asian countries in recent years.

Simon Holberton

of more than ... the very least Russia is likely to need World Bank help if it is to proceed.

In the Ukraine, unable and

Mr Remy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

fuels and other factors which the nuclear industry has little control.

Overseas interest: a delegation of Japanese businessmen inspect facilities in Dalian

Profile: Dalian Machine Tool Works

The market's burdens

THE DALIAN Machine Tool Works, maker of lathes, boring machines and other important if unglamorous equipment, is the type of factory in which China's legendary model workers were supposed to have toiled ceaselessly and selflessly for the sake of the proletariat.

Mr Zhou Kui, the factory's director and Communist party secretary, now finds himself at the centre of a sensitive debate over the reform of state industry and the rights of workers to leave the state sector and take their skills to collectively-run or private companies.

Over the past year, the machine tool factory has lost 71 of its employees, many of them managers and senior engineers, to a small company, Bohai Machinery Plant, established late last year on the fringe of Dalian, a northern port.

The case has received national coverage, with the departing workers asserting that "if you want to have a market economy, competition is inevitable."

However, Mr Zhou complained in a state newspaper that "they are digging at our wall publicly" and "some of our departments are half-closed".

The remarks prompted letters from factory managers who either agreed with Mr Zhou or thought that he had to accept the defections as part of managing a factory in modern China. But the replies also highlighted the welfare burden faced by large state-owned factories, which run kindergartens, provide housing and bear most of the costs of keeping retired workers and their families.

A tractor factory manager wrote to the Economic Daily complaining that his company had 40,000 workers, 100,000 relatives and 20,000 retirees, and "we have to take care of everything – how they eat, drink, and sleep." His complaint was that this burden left the factory at a disadvantage in the domestic and international markets.

HAVING been surrounded by political controversy, Mr Zhou is now careful in his choice of words. He began talking about the resignations by emphasising that he and the Dalian Machine Tool Works are committed to economic reform, and that the factory has imported new machinery in the state-approved quest for quality.

But he also makes clear that the factory has a long and honourable history of serving the state, which he thinks should count for something even in the middle of reform: "We have won many awards for our products since our founding in 1948. We have contributed to the growth of China's industry."

Mr Zhou did not directly criticise the senior staff who resigned, and made a point of mentioning that the exchange of talents was a natural result of the market economy, which suggests that he has been doing his duty as party secretary by taking note of the pro-reform editorials in the People's Daily.

However, he thinks that the exchange should be gradual, and not be allowed to damage state-owned companies, which do not have the flexibility enjoyed by their smaller competitors: "We are trying to make the transition to the market, but it is not easy because we have been part of a planned economy for a long time, and must deal with overstaffing and other difficult issues."

Mr Zhou is unable, for example, to dismiss a few hundred of the factory's 6,500 workers without government approval and without the danger of impoverishing those employees, as Beijing has yet to put a social safety net in place. He sees these changes taking a long time, and implies that state-owned companies need assistance in the meantime.

"We still have some planning and regulations from the central government, and even in a developed market economy there should be some regulations. After the perfection of regulations, our development will become more orderly and reasonable," he said.

Mr Zhou is not the only factory head to think that reform has created disorder. The director of the Luoyang Copper Products Factory wrote that he experienced "bitter and sour tastes" similar to those felt at the Dalian Machine Tool Works, and is unable to overhaul the factory, despite appreciating the need for change.

"Some people say that the state has invested a lot of money in our factory, and that we should be able to revitalise our operations. It's not that we don't want to do it or that we don't have ability. There is really nothing we can do. We are like a big elephant being eaten away by ants."

Robert Thomson

Anshan rescues Shenyang Steel

Loss-maker is given a new parent

JUST inside the entrance to the Shenyang Steel Sheet Works, a banner congratulates employees on their becoming members of the Anshan Steel family, which benevolently adopted a company that has consistently lost money for the past decade.

Shenyang Steel is typical of northern China's ailing manufacturers, slipping far behind the competition on quality but too poor to overhaul equipment installed in the 1950s and, in this case, unable even to buy raw materials.

The factory last year officially lost Yn12.66m, though the actual loss was double that amount, according to one manager. It has about Yn100m in outstanding loans from banks, 4,000 mostly idle workers and a potential output of 100,000 tonnes of steel, though last year it produced only 18,000 tonnes.

"We produced only for 75 days last year because we didn't have enough materials," explains Mr Lu Zihe, head of Shenyang Steel's business department. "We had no option but to be taken over by a company like Anshan. We have been trying to find a partner since 1991."

Mergers and takeovers are encouraged as an alternative to bankruptcy, still a touchy issue in Shenyang. In 1987, the city announced that an explosive materials factory had failed, but the resulting controversy surprised local officials and the city has not had another bankruptcy since then.

The idea of state-approved takeovers is that the stronger partner, Anshan, the largest steel producer in northern China, will reform the management of the company and replace the outdated equipment. But, in the four months since agreement was reached, Anshan has not changed the senior management and the factory is still working well below capacity.

One cause of Shenyang Steel's woes was the government's decision to remove subsidies from material prices, which rose to levels that the company could not afford. As Mr Lu put it, before 1992, "the state provided materials for us, but from last year the state stopped providing those materials," speeding its collapse.

"We are determined to learn advanced management skills from Anshan," Mr Lu says. But the managers at Shenyang do not expect that Anshan will want to control the company, and emphasise that they will be able to trade themselves out of trouble, given a continuing flow of money from Anshan.

Another worker at the factory insisted that the "state still owns the factory," even though Shenyang Steel has signed a contract making it responsible for profits and losses: "This is not like the system in the west – this is a socialist country and the state remains responsible for the assets and the workers."

His comments indicate the difficulty faced by the government in handling workers facing dismissal at loss-making companies. The arrival of Anshan is seen by workers as the state acting, in another form, to ensure that Shenyang Steel continues to operate regardless of its lack of profitability.

Mr Lu said his company is trying a few new tactics in the quest for profits. It is attempting to find a market for the waste steel materials rusting outside the main workshop, and is about to open a hotel, a popular but not necessarily profitable diversification by Chinese manufacturers.

"We are doing our best to avoid cutting the staff. We have changed the working system by putting employees into smaller units and we plan to open service businesses," says Mr Lu. "In the past, the government assigned people to the factory and we are still responsible for looking after them. We run a kindergarten and perform other government functions, so we should get help."

Robert Thomson

All crated up and going nowhere fast: GM joint venture materials

Troubled joint ventures

Bumpy road for car groups

THE UNPACKED boxes with bright red General Motors markings stacked around a Shenyang factory tell of the difficulties facing the US vehicle maker in its joint venture in the northern Chinese industrial city, *writes Robert Thomson.*

Each box contains part of a pick-up truck, but the assembly line has stalled along with sales, and GM's partner, the Jinbei (Gold Cup) Automotive Company, complains that the model is unsuitable for Chinese conditions and that the price of Yn180,000 is beyond the means of most work units.

Mr Zhang Defa, vice director of Jinbei, said the joint venture has only put together 300 of 580 pick-up kits imported in the past year, while existing production lines are still churning out Jinbei's standard commercial van. He suggests that the fruits of co-operation have not been to either partner's taste.

"There is no market for the GM truck. Chinese consumers are not very accustomed to this kind of two-seater vehicle and it is very difficult to sell.

"We are now negotiating with them to build a four-seater vehicle which would be better suited for China," Mr Zhang says.

Dealing with Jinbei has not been easy for GM or for Toyota Motor, which has a technical tie-up for minibus production with the Shenyang company, which is eager to boast that it is the 37th largest enterprise in China and has 40 per cent of the minibus market.

Jinbei's close links to the Shenyang government make it difficult for partners to resolve disputes locally, but Volkswagen found in its venture in larger, less provincial, Shanghai that it could tap support from government officials who owed no personal loyalty to its partner.

Mr Zhang suggests that negotiations for a production joint venture with Toyota are in the final phase: "It is very good to have technical co-operation, but we would like them to make an investment and be involved in the design of the car."

Toyota, the Japanese car maker, insists that there are many areas of disagreement and a contract is far from signed: "The Chinese side would like to think we are close to an agreement." One obstacle is Jinbei's lack of openness about its financial operations.

The Japanese company discovered that the Hong Kong-based Brilliance group, through which Toyota has the technical tie-up with Jinbei, established a Bermuda-registered company, Brilliance China Automotive Holdings. This became the first Chinese mainland company, via Bermuda, to be listed on the New York exchange late last year.

According to Mr Zhang, Jinbei itself was not listed, though 25 per cent of the Toyota-linked minibus production venture was listed by the Hong Kong-based Brilliance.

Toyota says that it was not told of the listing until after the event: "Our name was used in some of the publicity materials, but we didn't know.

"The Brilliance issue does not affect the ownership of Jinbei," Mr Zhang says.

"I have no idea what the share price is now. I know that the share price went up on the first day of listing, but that is all I know because we have no reason to watch the price."

However, the vehicle maker's own brochure talks of the "Brilliance-Jinbei" listing, and has a photograph of Jinbei officials in the company of Mr Jiang Zemin, the Communist party general secretary, who is supposed to have said that "Jinbei has connected the finance line with the US and the world."

At the time of the listing, the New York exchange was presented with a painting depicting "a hundred birds worshipping the phoenix," which, Jinbei explains, symbolised the hundreds of state-owned Chinese companies flying toward the US stock market for a listing.

But the listing stirred opposition in Beijing where some Communist party officials were furious that the Shenyang company and its charismatic chairman, Mr Zhao Xiyou, had proceeded.

Toyota is still angry, and wonders whether its future in China should be tied to a company with an erratic management record.

The Japanese maker is also yet to solve the issues that haunt most joint venture negotiations, including the value of existing assets that Jinbei sees as its contribution to the project, and the composition of the workforce, as well as the role of the imported management.

■ SCIENTIFIC RESEARCH

Trying to bridge the gap

ALONG Tian Lin, a kilometre-long stretch of road in West Shanghai, dozens of newly-built computer shops are taking the plastic wrappings off their signs and preparing to start business. Managers of the electronics factories along Tian Lin expect that within months it will be packed with customers, who will be able to walk away with almost any kind of computer or component they want.

The Chinese government hopes that many of the goods in streets like Tian Lin will eventually be Chinese-made. But that will depend on a transformation taking place in Chinese science and technology – one of the government's priorities since opening up the economy.

The central questions are how much that transformation will depend on importing technology, and whether China can develop a vigorous research base of its own.

Chinese science lost a generation of scientists and technicians during the Cultural Revolution, when many of the best were sent to work on the fields. Though many were later reinstated, those who held doctorate degrees from western universities before the turmoil are now mostly over 70 years old.

The current scale of scientific and technological research is huge: some 5,000 research institutes – generally separate from the universities – which are directed and funded by the Beijing-based Academy of Science, industry, regional colleges and the military.

However Professor Zhu Lilan, a polymer chemist who is vice minister of the State Science and Technology Commission, estimates that Chinese scientific research, while strong in some subjects, is still a decade behind the cutting edge of world science. In some areas, such as communications and nuclear science, China has been able to take advantage of an overlap between military and civil interests.

But according to western diplomats, "a shortage of money to buy equipment has been a handicap in the natural sciences [physics, chemistry, biology], while the social sciences still look stunted – they don't yet have enough autonomy [from state ideology]".

THE technological standards of Chinese-made goods have also been low. The evidence is visible in any department store: most electrical and electronic goods are imported. Even those which are Chinese-made often use imported components where reliability is needed – Chinese refrigerators use Yugoslav parts.

To bridge the gap, the government has been sending science students abroad to study – although half do not return, according to the science ministry.

Prof Zhu takes a benevolent view of this: "The world is becoming more open – a global village. You cannot say any more who can go where, but it does not matter for science where scientists work."

She adds that "the important thing is to create better conditions here so that they return". In western diplomats' eyes, however, "there is some debate whether it has been a conscious part of government policy to let them go because the country has not up to now been able to absorb them".

China's attempts to improve its science are focusing on areas which might yield commercial applications. However, researchers' "lack of understanding of the market" is a formidable obstacle, admits a ministry official.

One response has been to collaborate with foreign scientific research institutes, particularly in the US, and with foreign investors, especially in electronics and telecommunications.

The electronics ministry, which estimates that the sector is now 5 per cent of industrial output, believes that some $3bn has been invested in joint ventures.

To encourage investment, the Chinese government has begun to pay attention to the question of protection for copyright and intellectual property. IBM, the computer giant, among many other companies, has cited this as a considerable concern, although Beijing ministries insist that legal redress for such theft is possible.

Meanwhile, as China grapples with these problems, there is little doubt of the thirst for technological products.

Beijing's largest bookstore, in the Wangfujing shopping district, is evidence alone: one of the fastest-selling technology books is a manual on Microsoft Windows, the US-designed personal computer software that has won worldwide popularity. It may, though, be many years before Chinese companies mount a challenge.

Bronwen Maddox

■ CAR PRODUCTION

More joint ventures are sought

WHEN a delegation of Japanese car executives arrived in Beijing earlier this month to pay their respects to a fast-growing market, they were well briefed about the difference between the alluring statistics and the hard-won opportunities of China.

For the past decade, Japanese makers have been generally content with technical tie-ups and exports, not risking much of their own money or prestige in the joint ventures preferred by international competitors such as Volkswagen, which has two large projects, and Citröen.

"Chinese officials always tell us that we must pay a premium for being late to the market. They say that Volkswagen took a risk and has been rewarded – and that we should pay extra for starting up now," a Japanese company representative explains.

While the Chinese government warned the Japanese delegation about not missing out on a share of the world's fastest-growing car market, the government itself is divided over the development of the industry, and over the pace at which a tariff and tax wall of between 240 per cent and 300 per cent should be lowered.

China's leading car companies are courting joint venture projects, even though Chairman Mao Zedong is reputed to have said: "At last I'm sitting in a car made by Chinese" when the Number One Motor Vehicle Plant in Changchun began producing East Wind cars in 1958.

In the meantime, Chinese makers have slipped far behind their competitors in technology and quality. Economic reform has stimulated demand for new vehicles and has highlighted the deficiencies of the local product and producers, which are among the most politically-influential of the country's companies.

One sign of that influence, and of concern about the use of foreign exchange, is the unpublicised understanding within the government that imported vehicles should account for only 10 per cent of total sales. The government had aimed for a 25 per cent increase in local production to around 900,000 vehicles this year, and wanted to keep imports to between 70,000 and 80,000 vehicles.

"The pace of economic development means that the import level is likely to be between 90,000 and 100,000, and will at least be 80,000 vehicles," a Chinese government report predicts. However, the report also reflects concerns that China's desired admission to the General Agreement on Tariffs and Trade will create extra pressure to open the market.

But, as in so many industries, the official Chinese figures tell only part of the automotive story. They grossly underestimate the level of imports, as Japanese companies exported 96,963 vehicles to China last year, up from 20,673 in 1990, and not including those shipped through Hong Kong.

China's admission to GATT will create extra pressure to open the market

The Communist party's discipline inspection committee is apparently investigating illegal imports of South Korean cars through Shandong province, in the east. Imports of used Japanese cars have come through a Korean minority area in northern China, with much of the profit being taken by North Korean organisers.

To cool the car market, Mr Zhu Rongji, the vice premier, suspended purchases by government offices, which has slowed the flow of exports from Japan. Production in the first half was running at 45 per cent above last year's level, but the China National Automotive Industry Corporation said production and sales fell by just over 10 per cent in August, compared to a month earlier.

One reason for the low expectations of the Japanese delegation, sponsored by the Ministry of International Trade and Industry in Tokyo, are recent hints from senior Chinese automotive officials that the government does not expect to approve another large-scale joint venture until 1996.

Chinese officials have suggested that three large ventures, the two Volkswagen projects and that of Citröen, will cover demand for cars. It is also argued that three commercial vehicle and light truck plants, including Beijing Jeep, and two mini-vehicle projects, involving Suzuki Motor and Fuji Heavy Industries, the maker of Subaru cars, are enough for the next three years and, perhaps, until 2000.

However, another senior Chinese official said Volkswagen dominates car production and another venture, either US or Japanese, would provide a better balance of makers. A government report also draws attention to the limited presence of US makers in the market, and the political value of increasing imports of US vehicles or approving another joint venture.

Jinbei Automotive Company in Shenyang, in the north, is still looking for a joint venture partner, and has been negotiating with Toyota. Mr Zhang Defa, Jinbei's vice director, said that China "cannot rely on car imports" to satisfy demand, but "we can't meet the technological and capital requirements ourselves."

While the leading Japanese makers have been reluctant to commit themselves to China, the yen's appreciation this year has encouraged car parts makers to consider investment, partly to link up with ventures in which friendly companies, such as Nissan, have a small stake, but also with a longer-term aim of using the country as a base for components exports to Japan.

Robert Thomson

Rural areas/social policies

An upheaval is under way in China's rural heartland. Here and on the facing page, FT writers report on agriculture, labour, environmental, housing, labour and population issues

Many farm workers migrate to the cities, reports **Bronwen Maddox**

New tensions emerge

AN upheaval is under way in China's rural heartland where 900m people – three-quarters of the population – still live. Millions are starting to move to the cities, marking one of the biggest population shifts in China's history.

The migration has presented Beijing officials with an alarming vision of the social transformation set in train by their reforms.

The huddles of people camped in Beijing's railway station testify to the scale of the changes. Mr Du Wen Bei, 19, from a farming family in the south-west, has crossed the width of China with his friends to find work on the construction sites of the north-east.

"Jobs are easy to find up there, but there are no jobs at home at all," he says.

The current problems in agriculture partly stem from the successes of the past 15 years of liberalisation. The commune system imposed on farmers in the 1950s and 1960s sharply reduced agricultural yields, and output barely kept pace with the fast-growing population.

However, after 1979, peasant households were allocated their own plots of land under contract. After fulfilling local quotas, they were allowed to sell the surplus in the markets that began to emerge.

In the past two years, the government has also lifted state controls on most agricultural prices, and by the middle of this year, controls on grain and other food prices had disappeared in most parts of the country, the International Monetary Fund reports.

The surge in agricultural output since 1979 was one of the first clear successes of the liberalisation programme and has given the government confidence to reform the industrial sector.

But new tensions have emerged. The leap in agricultural productivity coincided with a steady rise in China's population, and Beijing ministries estimate that at least 130m of the total 333m agricultural labour force are now surplus to needs.

On some ministry estimates, this figure could reach 200m by the end of the decade.

Hence the migration – many of those people are now leaving

Today's migration from the rural heartland is one of the biggest population shifts in China's history

their home provinces to look for work on construction sites or as maids, enticed by stories of bright lights and big cities.

Discontent is also rising among those still on the farms. Although the rural standard of living has risen in the past decade, the gap between rural and town incomes has widened; official figures say that per capita income for peasants is Yn770 a year, less half that in the cities.

In the past two years, farmers have seen their incomes squeezed by a fall in prices for grains, while the costs of fuel, water, pesticides and fertilisers have risen steeply.

Their grievances were inflamed further in the spring when local banks failed to honour government IOUs for grain purchases.

One western diplomat says: "The problem arose partly because many local officials still regard peasants as serfs and don't take their needs seriously."

Although the central government gives the provinces money to buy the grain, many regions used their growing independence from Beijing to invest the money in real estate – they then lacked enough money to pay farmers.

Provincial independence, combined with farmers' preference for growing only the most profitable vegetables, has given Beijing a further headache: production of some of the most important crops has become volatile.

Following a disastrous cotton crop last year, production levels are expected to slump, even though China relies heavily on cotton production for textile exports.

Tensions came to a head in Henan and Sichuan provinces in May and June when peasants, enraged by layers of taxes imposed on them, rioted and attacked local government officials.

Beijing ministries were clearly rattled: "The riots and the migration have told them that they are losing social control," says one western observer.

The government has wielded a range of tools to pacify the farmers and stabilise output of the main crops.

It has ordered local banks to pay farmers promptly for the autumn harvest - the next few months will show whether this has been heeded. It has also continued to raise the price it pays farmers for some crops, and tried to establish a minimum price for the main grains.

Further rises are in the pipeline, the agriculture ministry says, although the government's room for manoeuvre may be limited as the price of soya bean, cotton and corn is already close to world market prices. Beijing has also tried to put a ceiling on fertiliser costs, and is compensating farmers for some of the increases.

According to the ministry of agriculture, the government is reconciled to maintaining these subsidies as the price of peace. Mr Xu Haijiang, division chief of its international division, and Mr Liu Zhenwei, deputy director of its central administration, says: "In the past, the government used to pay a lot of subsidies for consumers and for factories. Now these subsidies are being reallocated to farmers."

Village vegetable market: production of certain key crops has become volatile Picture: Peter Ibbotson/Camera Press

Meanwhile, Beijing is taking steps to control migration directly. In the past few months thousands who were camped indefinitely at Beijing railway station have been dispatched home.

During the rest of the decade, Beijing hopes that mushrooming rural businesses will soak up 50m of surplus rural labour. The government also plans to create 12,000 new small towns to absorb a further 20m, the agriculture ministry says.

Beijing officials and western diplomats agree that China is not about to run short of food. Transportation problems may mean some regions find some foods hard to obtain but "there is no shortage of farmers, no fallow land and no crisis of falling yields," says one western observer.

But Beijing will eventually be confronted by the social consequences of the changes it has set rolling, and by a difficult conundrum.

Continuing to cushion the farmers from price liberalisation is expensive; removing the protection risks further loss of control; reversing the reforms jeopardises the past decade's success.

In the agriculture ministry's words, the government's recent measures "will alleviate the problems – but they will not solve them."

Shortages are made worse by the pollution of rivers and water tables

A tussle over water supplies

ONE OF the best tests of whether China can get to grips with pollution will be its success in improving supplies of clean water. At the moment, the cities, industry and agriculture are tussling over an increasingly scarce resource.

Tianjin, located 100km south-east from Beijing, has recently seen part of its water supply diverted to Beijing, after a new reservoir was built upstream.

It is now rapidly approaching a ceiling: it uses 90 per cent of the remaining water and demand is still rising.

Tianjin's Environmental Protection Bureau acknowledges the dangers that water shortage poses to its regional development, but the solution – building more reservoirs – is expensive.

Reports by China's National Environmental Protection Agency (NEPA) and the World Bank show that the main cities frequently extract too much ground water.

Thousands of square kilometres of land have subsided around Beijin and Tianjin because of over-extraction of groundwater.

Overall, subsidence has been detected in 45 large and medium-sized cities.

The shortages are exacerbated by pollution of rivers and water tables. Much of the country's liquid and solid waste ends up eventually in one of the seven main river basins.

The pollution is rapidly cutting fishery yields. Annual breeding of the four main fishes in the Yangtze river declined from 20bn in the 1970s to the present 1bn, according to NEPA reports.

Meanwhile, poor drainage and accumulation of salt has cut yields on nearly 7m hectares of irrigated cropland, sometimes by 25 per cent, the World Bank study found.

Around 1.4m hectares are irrigated by polluted water, leaving poisonous heavy metals in the crops.

Bronwen Maddox

Pictured here are children in the crowded city of Chongqing in Sichuan Province. China's new fertility rate is now nearly as low as that of western Europe and the US. Much foreign criticism has centred on press reports of compulsory abortion and sterilisation in China Picture by Danny Green

Experts search for reasons for a dip in the fertility rates

The population puzzle

SHANGHAI'S population has stopped growing because the birth rate has fallen so low, according to China's ministry of family planning. That claim does not take account of peasants flocking to the city's construction sites or the sprawl of the new suburbs. But if true, it reflects the success of China's population programme, one of the most ambitious and internationally controversial aspects of its policy.

For nearly two decades, China has been trying to curb the growth of its population in order to raise living standards and restrain pressure on scarce resources. Latest government figures put the total at 1.17bn: China now has a nearly quarter of the world's population on around seven per cent of the world's arable land.

Estimates of the future population are staggering. The United Nations' central projection is that by 2050, the total could reach 1.52bn.

But tiny changes in assumptions about family size produce a wide range: from as little as 1.23bn in 2050 up to an astounding 1.9bn in 2050 (and 2.4bn in 2150), although demographers regard the highest figures as unlikely.

The core of China's policy is to limit couples to one child, mainly through financial incentives. In Beijing, couples pay 10 per cent of their income for a second child and a further 15 per cent for a third. In practice, they may also lose promotion, housing and other benefits.

The programme has also aggressively promoted contraception, principally intra-uterine devices, sterilisation, condoms and pills. Abortion is also widely available: the ministry reports one abortion for every two live births.

Despite a fall in fertility levels, estimates of the future population of China are staggering. By the year 2050, the total population could reach 1.52bn.

Much foreign criticism has centred on press reports of compulsory abortion and sterilisation. Beijing has generally called these reports exaggerated, but the family planning ministry acknowledges that some local officials may be inadequately trained – "around 60 per cent of staff at township level left school at around 15 years old – they do not have enough knowledge of contraceptives," says the ministry.

It is clear that the policy has had a dramatic effect. According to government figures this year, the fertility rate – the average number of children per woman implied by current birth rates – has fallen to around 1.9 from 2.25 in 1990. That is nearly as low as western European and US rates, and less than half that of India.

The reasons for the fall have puzzled population experts, given the partial relaxation of the one-child policy in the mid-1980s – "we were certainly surprised when the figures came through," says Mr Carl Haub, a demographer with the Population Reference Bureau, an independent Washington-based research organisation. Some analysts speculate on an unpublicised toughening of policy; others question whether the fall is sustainable.

The headline figures also hides other concerns. The policy has been more effective in the cities than in the rural areas, where three quarters of people live, and where the average number of children per family is still 2.6.

"The countryside is still a problem – they work with their hands and believe that they need more hands," officials say. The policy also appears to have encouraged a disproportionate number of baby boys, traditionally preferred to girls in China. Ultrasound machines – which can detect the sex of the foetus – are now widespread, although abortion on those grounds is officially discouraged.

According to the family planning ministry, in Zhejiang province in the Yangtze Delta, the proportion of boys to girls has reached 118 to 100 compared to the normal 104.

Demographers stress that given these tensions, and the scale of social change now under way in China, particularly growing affluence and migration to the cities, the future is highly uncertain.

In Mr Haub's words: "Who knows what China will look like in 30 years time? The range of prospects for its population is enormous."

Bronwen Maddox

Over 130m farm workers now "surplus to requirements"

Migrant labour moves to cities

HUDDLED in tightly packed groups around the railway stations of China's urban centres, peasant workers from the countryside wait listlessly for offers of work from city dwellers.

Government officials say that about 30m of China's 697m population of working age are employed outside their home provinces, and that about half are skilled manual workers, often in construction. But the World Bank estimates that this "floating population" may number as many as 120m.

In Guangzhou city alone, at the heart of the flourishing Guangdong province, officials estimate that about half a million of the city's 3m workforce are migrants – "it is hard to get good statistics for illegal migrants into our city," says Mr Fu Yin, division chief in the Guangzhou Planning Commission. "But it is unavoidable, and the figure will increase." He expects the number of migrants without work permits have risen to 900,000 by the end of the decade.

Traditionally, the Chinese state has assigned jobs for life to its citizens, with housing, health and welfare benefits attached. Citizens received the benefit of this guaranteed living standard or "iron rice bowl." Meanwhile, the Communist Party was able to keep a close eye on the behaviour of its subjects.

As economic development has accelerated, government officials have become aware that this highly immobile and inflexible labour system is hampering reforms.

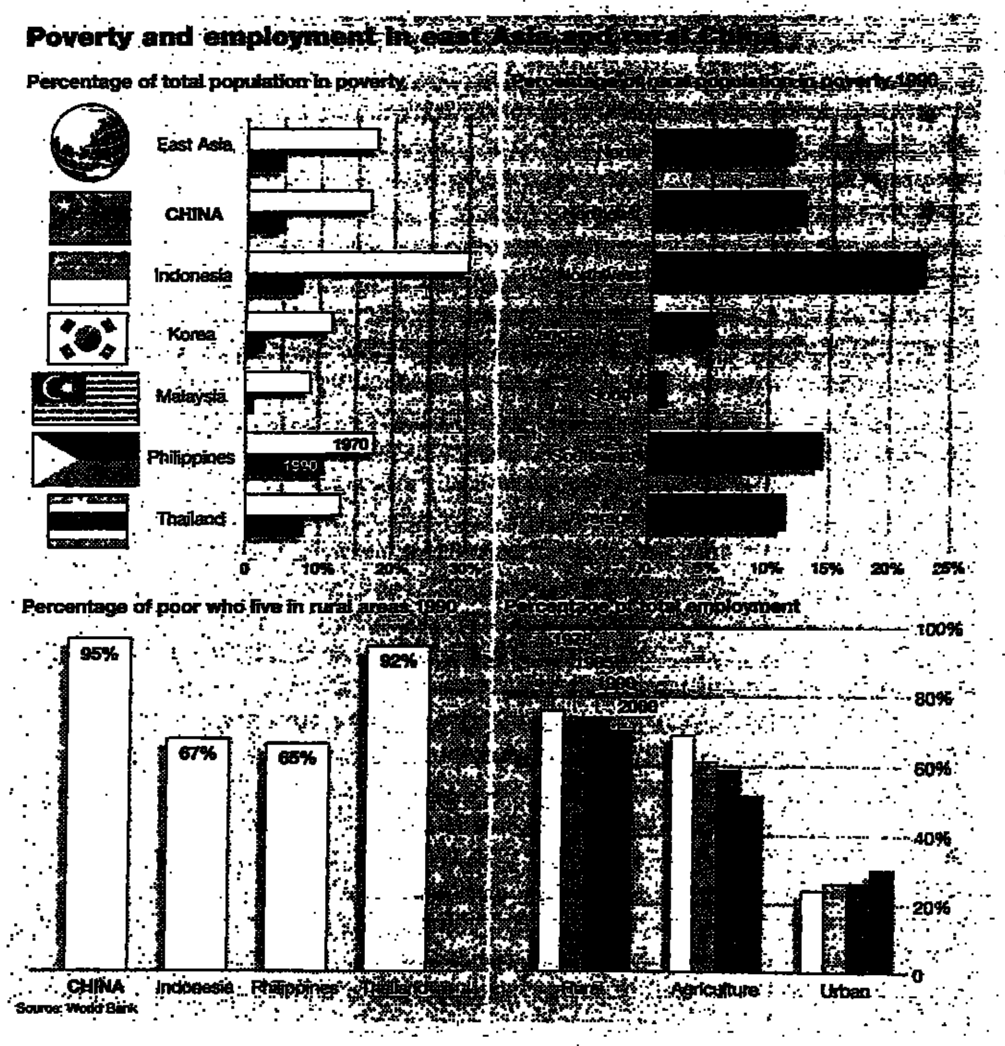
In 1986, a labour contract system was introduced for all newly recruited workers in the state sector, although by the end of last year only 16m (21 per cent) of total state enterprise employees had such contracts. The government is currently planning further labour market reforms, requiring all state employees to sign contracts. Unprofitable state enterprises were prevented over the summer from paying wage bonuses to their workers.

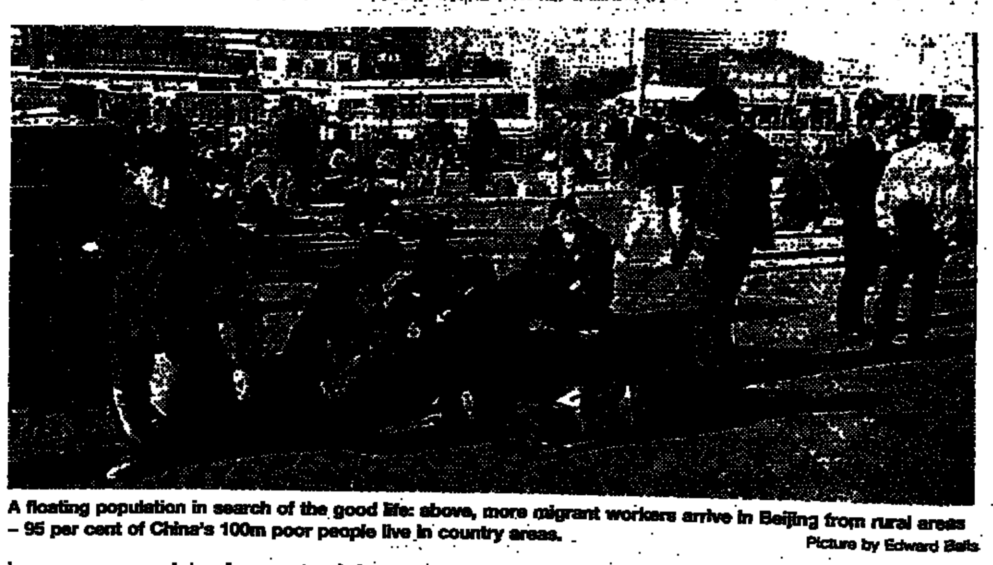
Meanwhile, the state plans to remove from state enterprises the responsibility for provision of welfare, pensions and housing. Experiments are under way to allow housing agencies to buy housing stock from state enterprises, and then gradually to increase rents over time. The government has established an unemployment insurance system and is investigating a national retirement fund.

"Our ultimate objective is to create an active labour market so that enterprises can freely choose their workers, and in which labour is more mobile," says Mr Zhu, vice labour minister. Yet the government remains cautious about the implications for "social stability" of asking enterprises to shed surplus workers, let alone forcing unprofitable enterprises to go bankrupt. Official unemployment in urban areas is below 3 per cent, but government officials estimate that about 10 per cent of workers in state enterprises are under-employed, while a third of enterprises are unprofitable.

"We cannot allow many enterprises to go bankrupt because our society does not have the capacity to absorb these surplus workers," says Mr Wei Liqun, Secretary General of the State Planning Commission. "With unemployment at 2 per cent, our society is stable. But if unemployment rises above 5 per cent we will have social unrest."

As the importance of state enterprises has dwindled, so the grip of the state on the activities of its population has also been weakened. Less than half of China's non-agricultural workforce now works in state enterprises, with a growing number working in foreign-funded enterprises often at five times the wage of their state compatriots. Meanwhile, the proportion of workers employed in Township and Village Enterprises (TVEs) rose from 7 per cent in 1980 to 16 per cent in 1990. These workers account for 40 per cent of non-agricultural employment.





A floating population in search of the good life: above, more migrant workers arrive in Beijing from rural areas – 95 per cent of China's 100m poor people live in country areas. Picture by Edward Balls

One reason for the growth of this floating population is the accumulating surplus of farm labour owing to population growth and technological change. The labour ministry estimates that 130m of the total 333m agricultural labour force is now surplus to requirements, and estimates that this figure could reach 200m by the end of the decade. The World Bank estimates that, while urban employment should grow by 2.8 per cent a year, agricultural employment will stay constant.

Another reason is the growing inequality of income between the richer coastal urban areas and poorer rural provinces. According to World Bank figures, the percentage of the population which now lives in poverty has fallen dramatically from 33 per cent in 1970 to 9 per cent in 1990. But poverty is highly concentrated in the countryside: 95 per cent of China's 100m poor live in rural areas.

In many rural areas, the growth of rural industry has played an increasingly important role in alleviating poverty, a policy that the government now plans to encourage. But there is also substantial regional variation in poverty incidence, as the chart shows, while rural industry is much more prevalent in the richer regions. More than a quarter of the rural population in the southern provinces is employed in rural industry, compared to a mere 3.9 per cent in north-western Gansu province where a third of the rural population is poor.

The government plans to encourage the growth of new urban areas in the poorer provinces by persuading enterprises and foreign investors to move to less developed areas. "Our policy is that farmers can leave the land, but not the countryside," says Mr Zhu of the labour ministry. But, as the floating population already shows, the development of China's labour market, like its economy, is not always under the government's control.

Edward Balls

to need World Bank help if it is to proceed.
In the Ukraine, unable and

the WANO governing board and deputy general manager of Electricité de France, told the

which the nuclear industry has little control.

Smog in Beijing: blast furnace towers and smoke stacks rise through the perpetual haze over Beijing's Capital Iron and Steel complex. For months, the giant factory was pushed into overdrive to keep pace with China's latest economic thrust. See industrial report, page eight

Picture: Dennis Owen/Reuter

■ POLLUTION

It will get worse

BICYCLES have been banned from the Bund, the highway along Shanghai's colonial waterfront, so that cars can move more easily. The image of hordes of Chinese making their way to work on bicycles is giving way to that of day-long traffic jams, which pump out a choking smog into the city air.

That is just one symbol of the pressures which China's economic development is putting on its environment. In the past, environmental concerns have been low among China's priorities. But in the past year, Chinese officials and the World Bank have both warned that pollution needs to be curbed urgently because it threatens future economic growth.

Shortages of clean water have already cut agricultural yields on millions of hectares of cropland and are pushing up manufacturing costs. Environmental diseases are a growing burden on public health programmes; lung disease, partly blamed on air pollution, was the leading cause of death in China in recent years at 26 per cent of all deaths.

Government statistics, though incomplete, indicate that Chinese cities are among the dirtiest in the world. More than two-thirds of household and industrial waste water is dumped untreated into rivers, lakes and the sea. In Beijing, where only 2 per cent of household waste is treated, the eastern suburbs reek of sewage, while Guangzhou's canals bubble with methane from rotting rubbish.

In northern industrial cities, levels of particles in the air, which cause breathing problems, are up to nine times higher than World Health Organisation standards, the World Bank reported last year. In rural areas, only one in seven people has clean drinking water.

These problems, while common to industrialising countries, have been exacerbated by the route that China has taken to development. The sharp rise in its population to the present total of 1.2bn followed Mao's endorsement of large families between 1950 and 1965. The economy is only gradually turning away from highly-polluting heavy industry, still nearly half of industrial output.

Moreover, the low energy prices set by the state have left Chinese industry inefficient. Consumption of energy per unit of output is high even by developing country standards, according to the World Bank. Coal, the single biggest culprit behind China's air pollution, still supplies three-quarters of the country's energy.

The Chinese government has made some attempts to curb pollution during the past 15 years. It is hard to think of another developing country with a comparable array of environmental regulations, permits, and levies at both national and local level.

Professor Ye Rugiu, of China's National Environmental Protection Agency, claims that these schemes have been at least partly effective: pollution per unit of output has not increased since 1978, in a period when GNP has grown by some 160 per cent, he says.

Government statistics indicate that Chinese cities are among the dirtiest in the world. In Beijing, the eastern suburbs reek of sewage

But the schemes attract scepticism among some Chinese intellectuals and western observers. They point out that the central government's budget for fighting pollution is tiny: only Y11.8bn last year. They are doubtful that without more funds, the government's current campaign to shame polluters into cleaning up will be effective. (In the summer it published a list of China's 3,000 worst polluting factories, and last month launched a nationwide nightly television programme to celebrate triumphs of pollution control.)

Perhaps the greatest problem is that regional and district governments often fail to enforce Beijing's policy. In the view of one western diplomat: "I think they [the central government] are sincere. The problem in China has always been the disconnection between the provinces and the centre."

For a start, fines are generally too low to be effective in deterring pollution or encouraging investment in cleaner technology. In Tianjin, a fast-growing industrial city 100km south east of Beijing, the district government can impose fines of only Y50,000 on factories, and the municipal government fines only up to Y100,000. Mr Liu Jin Sheng, senior engineer with the city's environment protection bureau, acknowledges that "the fines are low and need revision". But local officials cannot raise the fines without authorisation from central government.

However, tougher penalties might jeopardise economic growth and jobs. Faced with that choice, both central and provincial officials tend to choose growth and jobs. That preference is reflected in the lack of environmental controls exerted over the mushrooming township and village enterprises.

Often using outdated, inefficient technology, their sprawling sheds and belching chimneys are part of the new scenery of the Chinese countryside. Yet they underpin much of the new provincial prosperity, and also have a central role in state plans for soaking up surplus rural labour and discouraging peasants from migrating to the towns.

Given the shortcomings of China's present system of pollution control, the immediate prospect is that much of China will get dirtier as the economy grows. Informal government estimates suggest that China will burn 1.4bn tonnes of coal by 2000, a 40 per cent rise on present levels.

However, structural changes under way in the economy could bring about longer-term environmental improvements. If the attempts to free resource prices are carried through, particularly in the case of coal, industrial efficiency may rise.

Development of hydroelectric and nuclear power will also help, although it brings other problems: China's "Three Gorges" project to dam the upper Yangtze river has attracted international criticism for the ecological and social disruption it will cause. Decentralisation may also give the provinces more responsibility for pollution fines and permits.

Chinese officials acknowledge that foreign funding and technology increase the chances of this transformation.

In securing funds, China may be able to capitalise on international concern about global warming. It made clear at last year's Rio Earth Summit that if developed countries wanted it to curb emissions from coal burning, they would have to provide the cash.

But until these structural changes take place, it is hard to see China becoming cleaner. As Professor Ye puts it: "We must simply try to slow down the rate of increase of pollution as China develops – but we cannot stop the development."

Bronwen Maddox

Financial services

Significant reforms are continuing in China's banking and finance sectors. Here, and on the next page, Simon Holberton and Edward Balls *highlight recent developments*

Rush hour at Shanghai's Securities Exchange

Edward Balls looks at progress on banking reforms

Still a long way to go

THE appointment last July of Mr Zhu Rongji, vice-premier, to head the People's Bank of China signalled the government's intention to accelerate reform of the financial sector.

But despite considerable strengthening of the central bank's power since the summer, there is a long way to go before China has a viable and competitive banking system.

Over 14 years of reform, dramatic changes have occurred. Originally little more than a means of directing credits to state enterprises according to the central credit plan, China's banking system has become an increasingly important source of funds for enterprises and a means of recycling the large pool of domestic savings.

In 1984, the People's Bank of China became the central bank, with its commercial activities transferred to a newly created bank, the Industrial and Commercial Bank of China. Meanwhile, the other three state banks were encouraged to expand outside their traditional areas – agriculture, construction and trade finance.

The big four still dominate the banking system, but since the mid-1980s there has been an explosion in the number of non-bank financial institutions engaged in domestic currency lending, direct investment and trust business.

Meanwhile, the government has increased the number of banking licences granted to foreign banks. Although still prevented from engaging in domestic business, they have made a significant dent in the trade finance market. One western banker estimates that Shanghai's 26 foreign bank branches have won more than 25 per cent of that market.

Yet as the banking sector has become more sophisticated, flaws in the system have become more obvious. Problems exist in the following areas:

● Non-commercial lending. The state banks remain obliged to lend to state enterprises, regardless of commercial criteria, so the government has been obliged to keep tight control on competition in the banking sector and on the banks' interest rates policy.

Up to 40 per cent of the banks' loans to state enterprises are believed to be non-performing, although the Bank of China prefers to describe them as "overdue".

This lack of competition effectively prevents the central bank from using indirect instruments of monetary policy such as changes in reserve requirements to control credit.

● Under-regulation. Another result of the lack of permitted competition for deposits by the banks, combined with lax regulation by the PBC, has been a mushrooming of illegal lending to non-bank financial institutions who then on-lend at much higher interest rates.

One western banker estimates that, as a result of the crisis in the real estate sector, as much as 90 per cent of this bank to non-bank lending may now be irrecoverable.

Much of this lending occurs outside the published credit plan, and is mysteriously recorded in the government's monetary survey as "other items, net". Last year, net domestic assets grew by 32.7 per cent – 10 percentage points faster than allowed for in the credit plan. Lax regulation has led to a series of financial scandals and frauds involving non-bank institutions.

In March of this year, the PBC issued a circular which tightened access to the inter-bank market to keep non-banks out, prohibited real estate lending, and shortened maturities on interbank lending, although the decree was not enforced until July when Mr Zhu took over.

● Decentralisation. The government tries to use the PBC branch network to drain surplus deposits from the relatively few, normally richer, surplus provinces to redirect them to those in which the growth of deposits lags behind credit demand. But it has faced growing pressure from PBC branches, often with close ties to local governments, which have sought to make changes to the credit plan.

"Each province has a head branch of the People's Bank," explains Mr Lu Baifu, vice-director of the State Council's development research centre. But, he says, the bank has been losing control of its provincial branches. "The PBC cannot use it (the provincial branch) to adjust monetary policy. It has become a hindrance to the activities of the central bank."

Mr Zhu's first priority has been to re-establish control over the regional PBC branch network and to assert the PBC's independence.

"In the new financial system, the main objective of the central bank is to stabilise the value of the currency," says Mr Qin Chijiang, director of the PBC's Monetary Research Institute. "At the moment, the PBC has only limited power to change interest rates, but our reform direction is to increase it gradually."

Next year, according to Mr Qin, the government intends to establish three policy-oriented banks which will take over the non-commercial activities of the state banks, thus allowing the commercial banks to choose their customers and set realistic lending rates.

Meanwhile, the PBC is trying to build a national interbank market, improve the bank's asset and liability management and strengthen its own supervisory capabilities.

Yet, as one western banker in Beijing points out, "the big question is not how to reform the banks but how to reform their loss-making customers." Foreign observers doubt whether the government will be able quickly to free the state banks from their obligations to lend to state enterprises.

"The government has got to make it clear to the commercial banks that it is not their duty to lend to loss-making state enterprises," says an international financial official. "That means impressing on local governments and managers that they must make state enterprises profitable."

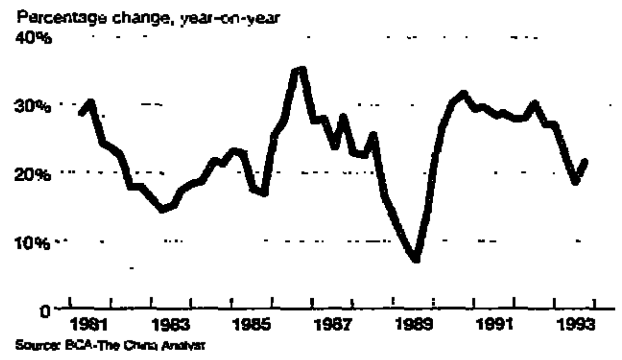
China's financial institutions (FIs)

- PEOPLE'S BANK OF CHINA (CENTRAL BANK)
  - BANKS
    - COMMERCIAL
      - NATION-WIDE
        - Bank of Communications
        - CITIC Industrial Bank
        - Hua Xia Bank
        - Everbright Bank of China
      - REGIONAL
        - Fujian Industrial Bank
        - Shenzhen Development Bank
        - China Merchants Bank
        - Pudong Development Bank
        - Guangdong Development Bank
    - NATIONAL SPECIALISED
      - Industrial & Commercial Bank of China
      - Agricultural Bank of China
      - Bank of China
      - People's Construction Bank of China
      - China Investment Bank
  - NON-BANK FIs
    - Trust & Investment Corporations (TICs)
    - Securities Companies
    - Leasing Companies
    - Finance Companies
    - Rural Credit Cooperatives
    - Urban Credit Cooperatives
    - People's Insurance Company of China
    - Other Insurance Companies

Source: Deutsche Bank

Total bank deposit growth

Percentage change, year-on-year



Source: BCA-The China Analyst

Eyes down for action: Shanghai's financial swap centre

Profile: Shanghai International Securities Company

Seeker of excellence

MODERN China is the land of the slogan, *writes Simon Holberton.*

Deng Xiaoping, China's senior leader, is famous for his "seek truth from facts". The Shanghai International Securities Company (SISCO) hopes to be famous by putting into practice management guru Tom Peters' slogan "in search of excellence".

SISCO is one of the largest securities companies in China and dominates the market in Shanghai.

Owned by a clutch of pension funds and industrial companies, it produces about half of all the new issues coming to the Shanghai market and is responsible, it claims, for more than 10 per cent of the market's daily turnover.

The company has also expanded into Hong Kong where it, and its mainland partners, control two listed companies.

Says Mr Xu Qing Xiong, the company's chairman: "SISCO is two years older than the stock exchange. At first we were dealers in government securities but with the listing of shares our business shifted to the trading of stocks. As the Shanghai exchange has expanded our company has developed very quickly."

Indeed it has. The company's fifth birthday, in May this year, was a time for celebration. In the 1992 calendar year, SISCO's balance sheet – according to mainland accounting standards – had more than quadrupled to Yn2.5bn from Yn600m at the end of the previous year. Profits before tax were Yn73.6m, compared with Yn12.bn

This growth has funded SISCO's expansion throughout China and Hong Kong. The company now employs 1,000 and it has 17 branches in Shanghai, 20 branches in other cities across China and further 16 agents. It is waiting for approval to set up another 13 branches.

Hong Kong has also become an important base of the company. Mr Xu spent five years in the colony and knows it well. SISCO teamed up with local tycoon Mr Li Ka-shing to acquire Public International (subsequently renamed First Shanghai) earlier this year.

It has also bought control of Ong Holdings which it has renamed Shanghai Hong Kong International Securities and will concentrate on securities dealing. Mr Xu says it is important to develop SISCO's business in Hong Kong as well as Shanghai.

In China's bifurcated securities market – where mainland investors can only trade A shares and foreign investors only trade B shares – a presence in Hong Kong enables SISCO to participate in both markets, he says.

■ HOUSING REFORM

Homeowner Mr Li feels very secure

HAVING crammed three generations into his recently purchased Yantai apartment, Li Xitian has combined the traditional Chinese family arrangement with the modern Communist party dream of owning your own home.

A party member at a Yantai storage company, Mr Li has set an example for his fellow workers, most of whom are yet to be convinced to swap a minimal monthly rent for housing loan repayments and the uncertain legal protection offered by the Yantai municipal government.

"I feel very secure. I really feel that I own the apartment and will be able to pass it on to my son and grandson," said Mr Li, who would not have bought it had he only been entitled to "occupation rights", as is the case under other experiments in Chinese housing reform.

In the past, party members have been expected to lead the way in political purity campaigns. Now Mr Li is a model homebuyer, having traded in a rent of Yn69 a month for an apartment priced at Yn23,000. He had saved half the amount and borrowed the remainder from friends, who will expect him to become a lender if they, too, decide to invest in a home and hence in China's economic reforms.

Housing reform began in Yantai, in east China, six years ago. However, workers and their work units, which own most of the country's housing space, are still reluctant to participate in a programme linked to the government's drive to strip away the many welfare functions of Chinese companies.

Party member Li Xitian: regarded as a model homebuyer

After the early fanfare, Yantai baulked. Sales were frozen after 1989, partly because of an unfinished ideological debate over ownership, but primarily because work units did not want to sell apartments at a loss. Meanwhile, the local government was reluctant to push rents to a level that would increase the incentive for tenants to buy at market value.

The government has restarted the experiment this year, convincing 11 work units, including Mr Li's Yantai Supply and Storage Transport Company, to participate. Yantai has ruled that all apartments built before December 1990 are "old" and will be sold at a discount, while those finished after that date are "new" and the selling price must reflect the cost of construction.

Yantai's experiences will be studied by other local governments, which have been delegated the responsibility for setting a timetable for reforms over which there is little dispute back in Beijing. It is agreed among economic planners that housing should be exposed to the market, but it is also recognised that sudden change could produce the "social instability" feared by the Communist party.

The central government was responsible for 90 per cent of housing investment before 1978, but its share was cut to 16 per cent by 1990, and has fallen further. By reducing its funding, Beijing has increased the pressure on local governments to develop housing policies or face a heavy burden in direct and indirect subsidies.

In Shenyang, an industrial centre in the north, where 38 per cent of state-owned companies are losing money, reforms are to begin early next year. But Mr Ai Tingjun, the city's vice-mayor, said: "Solving the housing problem will not be easy."

OFFICIALS in the northern Beijing district of Haidian would agree. They have suspended a scheme to sell apartments to tenants, many of them academics from the universities and research institutes dotted around the area. Academics complained that planned rent increases were excessive, and demanded special treatment as they were unable to take a second job to supplement their income and could not raise the money to buy a home.

Yantai, which increased rents in 1987 in the first phase of reform, plans to lift charges again to cover the costs of construction and then to reflect the market value of rents. The first change is due to come "in the years before 2000" and the second "in the years after 2000", according to a cautious Mr Wang Qingyuan, president of the city's real estate management bureau.

Private buyers outside the work unit system remain a small minority. Mr Wang estimates that only 3 per cent of "commodity houses" built by government authorities are sold to individuals, generally get-rich-quick business people or families backed by relatives overseas. The remaining apartments are bought by work units or state institutions.

Even Yantai officials, who are at least trying to reform housing, have a limited view of the market's boundaries. For example, if Mr Li or another apartment buyer wants to cash in the asset value and return to the subsidised rental market, he must wait at least five years and will never again be allowed to buy an apartment through the work unit.

And, Mr Wang explained, the capital gains must be shared with the work unit and the government, though the precise formula of taxes and charges for the unprecedented event of a quick resale has yet to be finalised.

Robert Thomson

■ SECURITIES MARKET

Regulators battle to catch up

IF THERE was ever any doubt that China is a nation of traders and gamblers, then the enthusiasm for company shares which has developed over the past three years has settled it decisively. The stock market is the point at which the national craving to get rich quickly and the government's desire to see a greater role for market forces intersect.

The frenzied buying of shares a year ago may have subsided, but the country is in thrall to stock markets. Kerbside dealers in unofficial shares and bonds have grown like Topsy on the street corners of many Chinese cities, especially those inland.

This enthusiasm for securities has, however, not come without a measure of downside risk. Earlier this year one Beijing company, which had illegally issued Yn1bn in loan securities, failed, leaving disgruntled investors with a pile of worthless bonds.

In Shenzhen last August, more than 1m people rioted when an inadequate system for issuing shares in soon-to-be-listed companies combined with official corruption, to deprive investors of a fair chance to participate in the new offerings.

Although there is little – short of exhortation – that the authorities can do to control kerb markets, they have moved decisively to damp the frenzy surrounding new issues. Officials – though not their families – have been banned from participating in the stock market; a lot of effort has been put into telling retail investors that shares can go down in value as up; and, the rules for new issues have been changed to make participation

A nation of traders and gamblers: 'High Rollers' at the Shanghai Securities Exchange Picture: Cathrin Trenou

in them less profitable.

At the end of September, there were 46 companies listed on the Shenzhen Stock Exchange and 80 on the Shanghai Stock Exchange. In Shanghai, up to five companies are being added to the official every week, and the authorities expect to have 100 companies listed by the end of 1993.

With the growth in the number of stocks traded has come an explosion in the number of securities companies: 205 in Shenzhen, including 10 foreigners, and 448 in Shanghai, including 26 foreign brokers. On both exchanges, foreign brokers are allowed to trade only B shares, of which there are 13 in Shanghai and 20 in Shenzhen.

In total, B share flotations have raise $US1bn since 1991. The amount of capital raised through A share issues is harder to determine: neither the Shenzhen or Shanghai stock exchanges collect figures on capital raisings, preferring instead to talk about market capitalisation. However, according to one Hong Kong brokerage A share issues have raise around Yn6n since December 1990.

China's adoption of computerised stock trading – where orders are matched by computer and trading is paperless – has enabled securities companies to offer real time stock trading on either the Shanghai or Shenzhen exchanges virtually anywhere in China. In Shenzhen itself an investor can dial a computer and transact an order over the telephone.

It is hardly surprising that such rapid growth has overtaken the ability of the regulators to police the market. Says Mr Xu Qing Xiong, chairman, Shanghai International Securities Co: "Many listed companies are not following what they said they would when they issued their prospectuses. We need more regulation to check and make sure companies follow their prospectuses."

The two stock exchanges and the China Securities Regulatory Commission (CSRC) are acutely aware of this problem – which has been the source of much criticism by foreign brokers – and its associated problems of the timely reporting of market sensitive information and the publication of accounts based on western accounting standards. According to Mr Gao Xi-qing, general counsel at the CSRC in Beijing, the CSRC has set up a working party to study how best to enforce compliance with the regulations. "We are fully aware of the complaints; the government does have the intention to force companies to publish more information."

Part of the regulatory problem stems from a division of responsibilities between the People's Bank, China's central bank, and the CSRC.

The People's Bank, which licenses securities dealers, has opposed the rapid development of the securities industry, mistakenly seeing it as a threat to the banks. The compromise which created the CSRC late last year left the regulator only with the power to supervise securities companies.

This has meant that the CSRC – which is dedicated to the rapid development of a western-style market in China – has had to be ingenious in its attempt to improve the quality of dealers. It has done this through its power to approve the underwriting of new issues. Securities companies have found that to underwrite securities the CSRC applies a standard "fit and proper" set of criteria to them, or licensing by another name.

The difficulties the division of labour between the regulator and the People's Bank may be overcome when a new securities law is published next year. Modelled on the US Securities Exchange Commission, this will vest much wider powers in the CSRC.

Simon Holberton

■ CHINA'S FIRST TAKEOVER BID

Suddenly last summer

Just when it seemed that China's first takeover was at least a decade away, a Shenzen conglomerate made a surprise move, reports **Simon Holberton**

WHEN China's stock market regulators were writing the rule book earlier this year the legal department of the State Council – China's cabinet – questioned why rules were needed governing takeovers.

As Mr Gao Xiqing, a director of the China Securities Regulatory Commission (CSRC), China's corporate watchdog, remembers it, one official said "it will take 10 to 20 years before we have a takeover in China".

Wrong. The ink had barely dried when Bao'an, a fast growing conglomerate listed on the Shenzhen stock exchange, was buying stock in Yanzhong, a Shanghai-listed manufacturer with large property holdings.

Bao'an's tilt at Yanzhong this autumn sparked controversy up and down the south China coast about the efficacy of company takeovers and the quality of the regulations governing the stock market.

Local loyalties were also fully engaged. The superior-minded Shanghaiese were horrified by what the parvenu from the south was up to. In Shenzhen, China's first and most successful special economic zone, Mr Zeng Hanxiong, chairman of Bao'an, was elevated to the status of a local hero.

Like it or not, as Mr Xu Qing Xiong, chairman, Shanghai International Securities Co., noted, takeovers have come to China. "This sort of acquisition is inevitable; you can do nothing to prevent them from happening."

Late last month, however, the CSRC found that Bao'an had violated the law governing the acquisition of substantial shareholdings. Bao'an's sin was to move from 10 per cent of Yanzhong to nearly 20 per cent of the company without making the required statutory declarations.

The CRSC fined Bao'an Yn1m and it was required to pass on to Yanzhong some of the profits (about Yn500,000) it made from the illegal trade in Yanzhong's shares. Bao'an was banned from buying any further stock in Yanzhong until November 4.

The CSRC's ruling has cleared up what some professionals thought was a flaw in the rules concerning the timing of declarations and the definition of concert parties. It has also got China's securities industry talking about the value of takeovers.

Mr Gao, although admitting that China's regulatory environment is not "pro-takeover", is in no doubt about their benefit. "A lot of listed companies still behave in the same way as they did before corporatisation," he says. "The threat of takeover shows them that control now rests with shareholders, not government departments."

Mr Liu Bo, executive vice-president at the Shanghai Securities Exchange, agrees. "Takeovers are good for management change and for the management of resources and for the economy in the long run."

Profile: China International Trust and Investment Corporation (Citic)

Headlong dash for growth

MR HUANG JICHEN, vice-president, China International Trust and Investment Corporation (Citic) is in an expansive mood – "we expect total assets to be Yn60bn by the end of 1995 and to reach Yn100bn by the year 2,000," he says.

Size counts in China. Reflecting the central planner's concern with "output," rather than profitability or the efficient use of capital, Citic executives still prefer to talk about growth in assets, rather than profits.

The company has increased in size greatly since its founding 14 years ago with Mr Rong Yiren – the son of one of China's leading business families of the pre-1949 era – at the helm. At the end of 1992 – the latest year for which financial data is available – Citic's balance sheet had swelled to Yn50.7bn, almost wholly on the basis of borrowings.

If the company's first 14 years of operation is any guide then Citic has a good chance of fulfilling its headlong dash for assets growth. Profits, however, are a different matter. At the end of last year the company made a profit of Yn380m, giving it a return on all those assets of just 0.74 per cent - 1 per cent on overseas assets and 0.4 per cent on domestic assets.

Losses during the 1980s, especially on US investments in forestry and steel, eroded a grant of Yn5bn made by the Chinese government at Citic's incorporation in 1979. By the end of 1992 the company's total equity (the sum of paid up capital, reserves and retained earnings) was Yn3m greater than the original Yn5bn capital injection.

Although Citic appears to the outside world as a western-style company it is really a development bank. Its main role is to bring western technology and business methods to bear on the pressing need to modernise the Chinese economy. Hence the dominant role played by its overseas operations.

According to Mr Huang, Citic's foreign operations earn two-thirds of the company's profits and account for half of Citic's assets. Citic is China's largest overseas investor, owning 18 per cent of the country's total investments abroad.

Citic has investment in aluminium in Australia, forestry and steel in the US, pulp and paper in Canada, and through Citic Pacific, its listed Hong Kong company, telecommunications, aviation and trading. Not all its investments abroad have gone well but, as Mr Huang, explains it, from adversity valuable lessons in business management have been learned.

"In September, when I was in the US, I met a banker who has had a relationship with our forestry business [Citifor] since the beginning," he says. "He had seen the whole process from the start; from when all our equity had been lost to when the company made a profit. When Citifor has become profitable, recouped its losses and is now offering up profits to Citic."

Mr Huang said that difficult as these experiences abroad have been they were good for managers. He likens it to a school, adding, "to train people without practice is just empty words." He says Citic is paying closer attention to the development of its staff, slipping into language that would warm the heart of any western "human resources" manager – "we offer a lot of opportunity to the people here. We are paying a lot of attention to training and offering staff opportunities to play a full role, especially in overseas business."

Citic is also discovering that management and financing techniques used in the west for building large infrastructure projects, such as power stations, are now ripe for use in China. The company is discussing with GEC of Britain and National Power, the UK privatised electricity generation monopoly, the construction a 4 times 600MW power station in Jiaxing City on Hangzhou Bay, based on the "build, operate and transfer" method so common in Hong Kong.

"The main reason for applying this model is because of China's stage of development," says Mr Huang. "We couldn't do it years ago, the fact that we can talk of doing it now shows that reforms and market development have been realised at a higher level. If we look further at the model it will only work if the price of electricity fluctuates according to the market."

Although the early years of the 1990s has witnessed an explosive growth in opportunities for foreign investors in Chinese companies, it is unlikely that Citic itself will ever be listed on a stock exchange. Citic reports directly to the Chinese government's State Council, or Cabinet. It is closely linked with both government and the Communist party at the highest level.

Foreigners can gain an exposure to some of Citic's mainland assets through Citic Pacific in Hong Kong. Next year they will also be able to buy equity in Yizhang Chemical Fibre, one of China's biggest synthetic fibre makers in which Citic has a 30 per cent share. This is one of the nine big Chinese state companies which will be listed in Hong Kong during the first half of next year.

Simon Holberton

■ CITIC

CITIC'S total assets in 1992 were Yn50.7bn. Profits were Yn378m. Divisions in the group include:

- Iron, steel and non-ferrous metals: 12 companies.
- Building materials: 17 companies.
- Energy: three companies.
- Chemicals, pharmaceuticals: eight companies.
- Textiles and light industry: 16 companies.
- Machinery and electronics: 12 companies.
- Real estate and construction: 17 companies.
- Trade and commerce: 12 companies.
- Finance: 11 companies.
- Tourism: 15 companies.
- Transportation: one company.

Overseas interests:

- Australia – aluminium.
- US – steel, forestry.
- Canada – pulp, paper.
- Hong Kong – telecoms, satellites, trading, aviation.

Sources: Citic company reports.

Infrastructure

Despite big projects now underway, China faces a daunting task to supply key services for which foreign investment is crucial. Below, and on the next page, FT writers look at the latest developments

Urgent need to upgrade road, road and port facilities

A feeble springboard

China's inadequate infrastructure has emerged as a serious constraint on its future non-inflationary development, reports SIMON HOLBERTON

CHINA has embarked on the world's largest expansion in railways, roads, ports, electric power capacity and telecommunications. By the end of the century, however, the nation will still be unable to meet demand for these key services, thereby capping the China's ability both to grow rapidly and maintain a semblance of price stability.

Financing the country's upgrading of infrastructure resources has also emerged as a pressing problem for the authorities. Central government revenues – the mainstay of investment a decade ago – have been eroded by the growing fiscal power of the provinces.

Beijing's loss of financial control – which may be reversed once planned tax reforms and revenue sharing agreements are in place – has also hampered coordination of infrastructure development. Local interests have sometimes taken precedence over national requirements.

In addition to this, the inefficiency of China's banking system in marshalling domestic savings for investment has also retarded development. Again, this may be addressed by planned reforms of the banking system.

Foreign investment has become an important source of finance for the development of infrastructure. Such are the needs for increased capacity that China has been forced to allow direct foreign ownership of roads, local railways and power stations.

According to one estimate, compiled by Crosby Securities, a Hong Kong stock brokerage, the share of foreign investment in China's expenditure on infrastructure development rose to 13 per cent in 1990 from 2 per cent in 1982. This trend is expected to continue.

What follows is a selective look at the current infrastructure bottle-necks besetting the Chinese economy, the government's plans for future development and the difficulties it is encountering in realising its plans.

● RAILWAYS. About 70 per cent of China's freight is carried on its 53,000km railway system. In the 8th five-year plan (1991-95), the Ministry of Railways hopes to increase the network by 16,300km, or 30 per cent, and rolling stock by 20 per cent.

According to the World Bank China's railway network is sufficient to meet only 60 per cent of industry's demand for rail services. Mr Tu Yourui, vice-minister of railways, says network can satisfy 70 per cent of demand, but that "in some areas, especially the main line to south China, bottlenecks mean that we can meet only 40 to 50 per cent of demand."

The ministry plans to upgrade the Beijing to Kowloon line to a double track railway by the end of 1995. It recently mobilised a workforce of 200,000 to accelerate the building of the line, which has encountered difficulties on the Guangdong-Guangxi border in the south where 300km of line has to pass through mountains and cross rivers.

Inflation has affected the ministry's ability to meet the 8th five year plan for rail construction. Its original Yn100bn budget for capital construction is up to 40 per cent less than it now needs. This has prompted calls for a review of its very low tariff structure.

It costs just 5.3 fen (about six US cents) to transport one tonne of freight one kilometre. Mr Tu estimates that a one fen increase in the tariff would earn the ministry an extra Yn11bn a year in revenue.

But the coal industry is the main impediment to increasing tariffs. Half of the freight shipped by rail is coal for the electric power industry. Coal industry losses grew to Yn11.9bn in 1990 (from Yn1.25bn in 1985) and it is doubtful if the industry could shoulder its share of the price rise.

Foreign investment in railway lines has become one way of addressing the financing problem, but so far only for city and intra-regional lines. In Zhejiang and Fujian provinces as well as Chongqing city in Sichuan, foreign investors are developing rail systems. In Zhejiang and Fujian they own equity in the lines and are able to develop land adjacent to the railways.

● PORTS. China's big 8 ports – from Dalian in the north east to Guangzhou in the south – handle 80 per cent of China's seaborne trade. According to the ministry of communications, the volume of trade currently being handled is 20 per cent in excess of their design capacity.

Over the 1991-95 period China hopes to build an additional 180 berths (100 of which are deepwater berths) and increase capacity by 170m tonnes. The ministry has set a target of doubling China's ports capacity. Today, 50 per cent of ships calling at China's ports have to wait days before they can be unloaded.

Beijing has decentralised decision making on ports development to the provincial and city level. In Shanghai and Shenzhen, city authorities have brought in Hong Kong investors to upgrade container port facilities, with these investors owning between 50 per cent and 80 per cent of these facilities.

● ROADS. China's road network is one of the most underdeveloped in the developing world. Density of highways is a fifth of that in India.

At the end of 1992 China had 1m kilometres of roads, only 6,800 of which were class 1 or class 2 highways – properly paved and consisting of more than one lane each way. China's 30,000km national truck road network is operating in excess of its design capacity. A further 250,000km of roads have reached or exceed 60 per cent of their design life. The ministry of communications estimates that upkeep for these roads alone is costing Yn1bn a year.

The ministry has ambitious plans for the future development of China's road network. Over the next 30 years it wants to see 30,000km of highways linking China's main urban centres. It is unable to estimate the cost of this roads programme, due to price variations throughout the country for land and materials acquisition.

Providing the needed infrastructure for shipping goods throughout China is a daunting enough task. Addressing the social infrastructure needs of the cities is just as challenging. According to Mr Wang Guangtao, a senior official at the ministry of construction, China's cities produce 85m tonnes of sewage and waste water a day, of which only 17 per cent can be treated. The hope is that by 2000, 25 per cent can be treated – "this is a big task for us," he adds.

The shape of things to come: poster artists work on a giant mural of what the tower blocks of Pudong, Shanghai, will look like when complete – but for now it is probably the biggest building site in the world

Infrastructure: how China compares

Country/territory	Power consumption Kw hr per head	Phone lines per 100 people	Kilometres of roads per sq.km.
Hong Kong	4,089	38.0	1.36
Singapore	4,822	35.0	4.50
Malaysia	1,141	7.3	0.07
Thailand	711	1.8	0.09
Indonesia	211	0.5	0.03
Philippines	418	1.0	0.53
CHINA	550	1.1	0.11

Source: Crosby Securities

■ COAL AND ENERGY SHORTAGES

An economic bottleneck

People are not complaining too much about the price rises – "not yet anyway," say the blue-boiler-suited staff of the coal depot in Beijing's grimy backstreets.

Several years ago the cylindrical bricks of pressed coal dust were three *fen* each - now they cost five times as much.

The overhaul of the loss-making coal industry, one of the central parts of China's modernisation, is also one of the most publicly sensitive. It implies not just sharp price rises but huge job cuts in China's coal industry – with 7m workers, it is the world's largest.

The use of coal is woven into almost every part of Chinese life. In winter, the cities' *hutongs* – crowded lanes of huts - pump out black coal smoke from their heating stoves, while most electricity is generated from coal.

In total, it makes up three-quarters of the country's energy consumption.

But the need for reform is inescapable. After years of explosive economic growth, during which energy production failed to keep pace, the southern and coastal regions now see their growth threatened by coal and power shortages, one of the economy's tightening bottlenecks.

Although annual coal production doubled between 1977 and 1992 to 1.1bn tonnes, it has failed to meet demand. Similarly, electricity generation, which has risen by around 8 per cent a year in the last decade, has been outstripped by GNP, which has risen nearly 9 per cent a year in that period.

According to the State Planning Commission, the energy shortage may be the equivalent of 500m to 600m tonnes of coal by 2000 if the economy grows by around 9 per cent a year.

Part of the problem has been artificially low state prices. Although the range between provinces is wide, the level has frequently been less than a third of world market prices of US$35 a tonne.

In the past year, the huge China General Coal Corporation, which accounts for a third of the industry's output, has taken the first steps to reform by allowing coal prices on 57 per cent of its output to float at market prices, compared to 20 per cent in 1992.

The rest of the industry is made up almost entirely of mines run by provincial and local governments, which must sell specified amounts to China General and state enterprises at set prices.

According to a World Bank report in June, prices for this mandatory production were raised by 27 per cent to Yn71 per tonne.

The government has also, gingerly, begun to tackle overmanning. Since last year, China has laid off or has made plans to lay off 200,000 employees. The government has given it some Yn2bn a year to pass on as compensation.

But even if profitability returns to the industry and production rises, the creaking rail network threatens to choke off supplies.

Guangdong province, in China's booming south, imports some coal from Australia because freight deliveries from the north are so erratic. Hundreds of kilometres away, stockpiles of Chinese coal smoulder while waiting months for freight trains.

The problem is made acute by the regional imbalances between production and consumption: while China's main coal deposits are in the north, the main consumption in the east, south and north east.

One of the government's proposed solutions is to build more power plants inland near the mines.

However western diplomats point out that electricity transmission along power cables is currently so inefficient that much electricity is lost on the way.

Given China's coal reserves – estimated by western observers to be some 900bn tonnes – coal will remain the backbone of China's energy supplies for decades.

If the transformation of the industry is successful, Beijing expects annual production to rise by nearly 40 per cent by the end of the century to 1.5bn tonnes.

But between now and then, Beijing must navigate some of the most publicly contentious issues of its programme of reform.

Bronwen Maddox

■ TELECOMMUNICATIONS MARKET

High price of entry

FOREIGN manufacturers are waging an intense battle to win a greater share of China's booming multibillion dollar telecommunications market.

"There is fierce competition, because the stakes are so high," says a western business executive involved in telecommunications. "China could buy more phones than many countries combined."

China has about 17m phone lines and about 1.6 phones for every 100 people. This compares with about 60 phones per 100 in the US. Beijing's goal is to have 100m lines in operation by 2000.

The focal point of the competition is China's public switching sector. The government is expanding and modernising its telephone exchanges by installing "stored program computers" (SPCs) to replace the older electro-mechanical equipment to do the switching.

The leading manufacturers in this market are Alcatel, Ericsson, Northern Telecom, Siemens, NEC, Fujitsu and AT&T. However, the price for entry into the market is high. Companies have been told that to manufacture switching equipment, they must also make semiconductors in China, according to western businessmen.

"The Chinese want semiconductor lines – it's the basis of everything from modern weapons to computers," a western diplomat says. "It's more important than the internal combustion engine was, 100 years ago. And it's extremely expensive to set up."

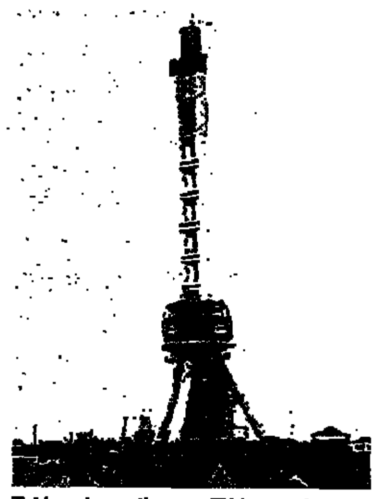
Most manufacturers have little choice. To sell their array of other communications equipment, they must be in the switching market, the diplomat adds.

Nearly all of the western telecommunications manufacturers in China have established, or are in the process of establishing, micro-chip production plants.

Siemens has a chip factory in Wuxi near Shanghai, Alcatel has a similar arrangement with its Chinese joint venture partner in Shanghai, and the Japanese multinational NEC produces semiconductors at the state-run Capital Iron & Steel plant in Beijing.

AT&T is also believed to have reached agreement to set up semi-conductor operations to support the manufacture of its planned switching joint ventures in Qingdao, a port in north-east China, and Chengdu, the capital of Sichuan. These joint ventures are expected to begin operation in 1995.

Northern Telecom has nearly concluded negotiations to make switching equipment in Shunde in Guangdong province and expects to begin production of switches by the end of this year or early 1994. It will use semiconductors manufactured by two other joint ventures which the Canadian giant is establishing in Shanghai.



Taking shape: the new TV tower at Pudong, Shanghai

Northern Telecom has also recently won $159m of contracts to sell switching equipment to the provinces of Henan, Jiangxi, Shaanxi, and Yunnan.

Northern Telecom's sales follows a period when the State Council initially allowed only three multinationals to form Sino-foreign joint ventures to manufacture switching equipment. These were Alcatel affiliate, Shanghai Bell, a Beijing-based Siemens joint venture, and an NEC company in Tianjin.

Other multinationals were frozen out, but under pressure from Washington and other companies, industry sources said the Chinese Ministry of Posts and Telecommunications agreed to ease its restrictions on the lucrative switching market.

Of the foreign telecom companies, Alcatel is the market leader in the switching business with about 30 per cent of the market; Siemens has approximately 15 to 20 per cent, NEC a smaller share, with the rest split among other foreign manufacturers, say industry sources.

Alcatel is the most aggressive. Its joint venture with Shanghai Bell has tripled its design capacity to produce more than 2m lines last year – and Alcatel has sold an additional 2m lines direct to local branches of the Ministry of Posts and Telecommunication since the 1980s.

Siemens also plans to dramatically increase its production capacity from 1.5m lines this year to 3m by 1995 at its Beijing operation. Last year, the joint venture produced 370,000 lines.

Meanwhile, Ericsson plans to install 1.8m lines in Guangdong over the next few years.

Apart from switching equipment, demand for the latest technology in optical fibre networks to transport speech or data is also acute, western businessmen say. The government recently had tenders for large long-distance optical fibre networks crisscrossing the country.

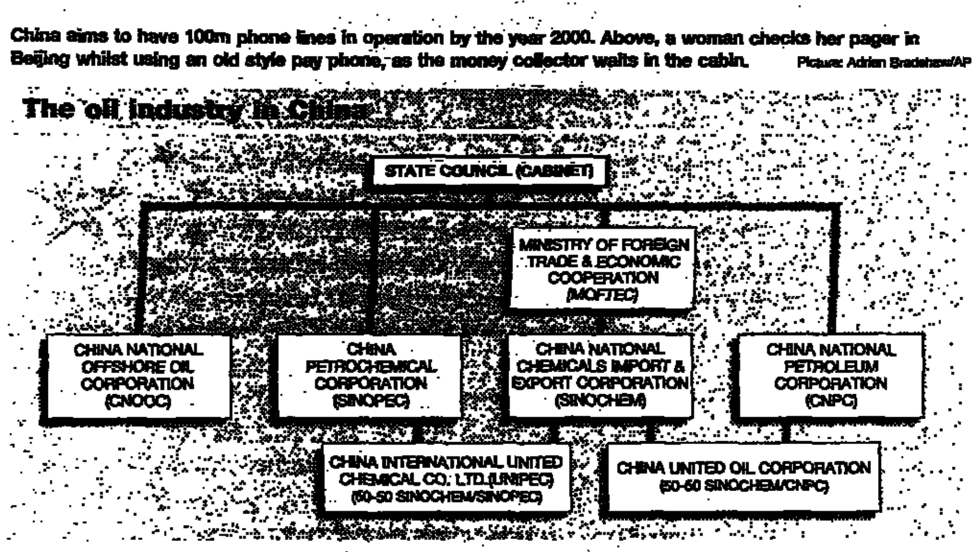
"China is developing so fast that it wants to go in at the highest level, rather than spend years with older equipment," says a western businessman. "The Chinese weren't buying optical fibre equipment in 1988 and '89. Now, they are poised to take advantage of the latest technology."

Because of the country's telephone shortage, mobile phones and radio pagers have proliferated wildly in an unregulated atmosphere, often with network frequencies interfering with each other. To impose more order on the market, retain its monopoly and cash in on the huge consumer demand for pagers and other data-communication services, the Ministry of Posts and Telecommunications recently issued new licensing regulations.

Foreign manufacturers welcomed the decision, saying it would help stop the production of poor quality and counterfeit pagers.

Lynne Curry

China aims to have 100m phone lines in operation by the year 2000. Above, a woman checks her pager in Beijing whilst using an old style pay phone, as the money collector waits in the cabin. Picture: Adrian Bradshaw/AP



■ OIL AND GAS INDUSTRIES

Big shake-up under way

MR HAN GENGSHENG, vice-president of the China National Chemicals Import and Export Corporation, seemed remarkably sanguine for a man who had recently seen his organisation lose its lucrative monopoly over the marketing of Chinese crude oil and derivatives.

"Economic reform will inevitably have some unpleasant effects on companies with monopoly positions," he says. "But I believe that this kind of reform provides challenges and opportunities for development."

Sinochem, as the giant state trading corporation is known – the company ranked 29th in 1992 on the Fortune 500 list – has been obliged to enter 50-50 joint ventures with the China National Petroleum Corporation for crude exports, and with the China Petrochemical Corporation (Sinopec) for the marketing of refined products.

Formation of the new joint venture companies, China Oil and the China International United Chemical Orporation (Unipec), represents one of the biggest shake-ups in China's oil sector in many years, and also coincides with the abolition of the Ministry of Energy under a streamlining of the bureaucracy approved this year by the National People's Congress, China's parliament.

Mr Wang Tao, chairman of China National Petroleum Corporation, left no doubt in an interview that he derived particular satisfaction from the new arrangements that will involve CNPC not only in the production of crude, but also in marketing.

He plans to use extra revenues from these ventures to further develop CNPC's activities domestically, including investments in refineries. CNPC is also interested in expanding its reach abroad through its China National Development Company, established in 1991, to seek opportunities in exploration and development, but whose activities have been severely curtailed because of lack of funds. Changes in the oil sector also coincide with the beginning of a period of heightened activity involving foreign companies in the search for oil in China's onshore regions, especially in the promising Tarim basin area of far-western Xinjiang region.

Mr Wang said earlier this year that in addition to the 11 southern provinces of China which had already been opened to foreign involvement, an additional 12 areas would also be offered, including remote regions of Qinghai province and Xinjiang in the west, and Inner Mongolia in the north-west. China attracted a good response from the oil majors in March when it offered five blocs in the prospective Tarim basin covering an area of 72,730 sq km.

EFFORTS to engage foreign companies in the development of China's oil reserves (estimated at 30bn barrels) are being given added urgency by the likelihood that by 1995 at the latest the country will become a net crude oil importer.

Mr Wang estimates that exports will exceed exports this year by about 4m tonnes. Onshore production this year is expected to be much the same as last year's 138m tonnes. But he warned that with economic growth anticipated this year of about 13 per cent, it was unrealistic to expect that China could continue to produce more oil than it consumed without big new discoveries.

"The petroleum industry is developing like a tortoise, and GNP growth like a hare," he observes. Even if good discoveries are made in the Tarim basin, it will be some years, and possibly not until the turn of the century before oil is flowing in large quantities from China's far west. The cost of building a pipeline more than 2,000 kms from the Tarim area across rugged terrain to connect with the national pipeline grid is estimated at about U$2bn.

Exploration activity is also continuing in offshore areas; although the crushing disappointment, not to mention huge losses, suffered by Western companies such as British Petroleum in the 1980s in a fruitless search, has dampened much of the early enthusiasm.

Mr Chen Binqian, vice president of the China National Offshore Oil Corporation (CNOOC), said his organisation was pressing on with its efforts to engage foreign companies in prospective areas offshore, such as the East China Sea, the Pearl River delta, and waters off Hainan Island in the south.

Mr Chen expects to have awarded contracts for 13 concessions in the East China Sea by the end of the year. CNOOC itself continues to be active in its efforts to lift production at its own wells in areas such as the Bohai Sea, in China's northern water, where it brought onstream a new field in September. It is also looking forward to Agip, Chevron, Texaco, Philips and Amoco bringing relatively small fields into production between 1994-1996 in the Pearl River area.

This year, CNOOC expects oil production from offshore areas to reach 5m tonnes – and to grow to about 12m tonnes by 1997. But disappointed by results of oil exploration offshore, it is looking increasingly to its gas finds to justify its own existence, and to provide energy to fuel China's booming economy, especially in its energy-deficient southern regions, and Hong Kong. By 1996, CNOOC expects to be supplying 2.9bn cu. metres annually to Hong Kong, and 500m cu. metres to Hainan island itself from fields off the island's south coast. More finds are being made in waters off Hainan, and CNOOC hopes to be supplying 20bn cu.metres to consumers in Hong Kong and on the mainland by early next century.

Tony Walker

Successful joint venture profile: Shanghai Bell

Well worth the risks

"OUR BIGGEST problem is management" says Mr Bert Degraeve, the Belgian who is general manager of Shanghai Bell, one of Shanghai's most successful joint ventures between Chinese and foreign companies. A shortage of skilled managers is also China's biggest problem in attracting investors, he argues.

Set up in 1985, Shanghai Bell Telephone Equipment Manufacturing, epitomises the kind of high-technology investment which China craves. Telephone exchanges and switches from its Shanghai factory, designed to some of the latest overseas standards, are being slotted almost daily into the country's over-stretched telecommunications network.

The group was created as a joint venture between the Shanghai Ministry of Post and Telecommunications, which owns 60 per cent; Alcatel Bell, the Belgian telecoms group, which holds 32 per cent; and the Belgian government with 8 per cent.

The attractions for the foreign owners are clear. While the Belgian market for exchanges is 300,000 lines a year (a measurement of the exchanges' capacity), the Chinese market is already nine times the size. This year, Shanghai Bell expects turnover to be US$450m, compared to US$320m last year and $80m in 1990, even though the price of the products has halved in the past eight years.

However, the price of entry to the Chinese market was the government's requirement that foreign technology be transferred to the joint venture. Alcatel Bell introduced not only the exchange and switch manufacturing capability, but set up a subsidiary of Shanghai Bell, called Shanghai Belling, to make wafers for silicon chips.

Lu de Chun: aiming for high microchip standards

In Mr Degraeve's view, foreign companies' concerns about losing control of the business after they have transferred technology "are justified." But in the end "you have to take the risk," he says. In Shanghai Bell's case, the requirement was easier to fulfil than it had expected: it discovered a virtually unused wafer fabrication plant already in Shanghai, with plastic covers still on the equipment, and took it over.

The bigger issue, he argues, is how to transfer management standards. Like other high-tech companies, Alcatel Bell was attracted to Shanghai by the large number of technically qualified graduates emerging from its universities. But although the graduates are technically qualified, one of his hardest tasks is to instill a sense of precision and high standards into his staff.

"You can see the circumstances in which people are living, the crowded rooms, the clutter, the traffic, the noise. Then you expect people to come in this gate and turn around 360 degrees" to produce precisely-engineered products – "that is what we are demanding of them."

His job is made harder because the Cultural Revolution has left a shortage of trained 40 to 50-year-olds – "the result is that company structure is then distorted" by a disproportionate number of young staff, he says.

Despite these problems, Shanghai Bell believes it has a head start and a competitive advantage which will put it ahead of other rivals; US telecom groups now have the eye on the market. The same may not be true, however, of Belling, its subsidiary.

Mr Lu De Chun, Belling's general manager, acknowledges that Belling's chips are some way below the standards of the best international plants. Only between 60 per cent and 90 per cent of wafers pass the tests at the end of the production line, compared to 99 per cent in the most highly automated Japanese plants. Belling's most complicated chips need to be sent to South Korea and Taiwan for assembly.

At the moment, 85 per cent of Belling's business is with Shanghai Bell; the parent company is keen on owning local suppliers of components because of the difficulty and expense of importing.

Bronwen Maddox

Anxiety over safety in the skies

Airlanes congested

THE RAPID expansion of China's aviation industry is straining the country's ability to maintain adequate safety standards, according to Western aviation experts.

The proliferation of airlines, coupled with the purchase of so many aircraft in the world's fastest growing aviation market, has triggered alarm among senior Chinese leaders and western experts about just how safe the country's skies really are.

"Their idea of aviation is aeroplanes," a western businessman said. "It's almost as an afterthought that the Chinese consider maintenance, the training of pilots, and airports to handle passengers."

Indeed, since the mid-1980s the growth in the passenger and freight markets has soared to 25 per cent a year. Even with a projected slower growth rate of less than 20 per cent annually through the end of the century, western businessmen estimate that Chinese airlines will continue to need 50 planes a year for the next decade.

To meet this demand, foreign aircraft manufacturers are flocking to China. Boeing Corporation and Airbus Industrie have been market leaders. In the spring of this year, Chinese airlines bought 21 Boeing jetliners, making a total of 150 Boeings either leased or sold to the country since 1972, when China placed its first order with the American manufacturer. China has also purchased 12 aircraft from Airbus this year. Prior to that sale, altogether the European consortium has sold 17 aircraft to Chinese airlines.

Making the skies safer depends on making improvements in several vital areas: air traffic control, radar, ground equipment and pilot shortages. China'a air space is controlled by the military and civilian airlines must request use of it. Civilian aircraft are allotted narrow corridors within which to fly and cannot deviate out of them.

With more aircraft flying in the same air space, western diplomats said the likelihood of an accident increases. The air space problem is compounded by China's severe shortage of radar and ground equipment and navigational and landing systems.

"China is using the same amount of radar to cover more aircraft," a western diplomat said. "It is not ready to adequately handle the increase in the number of planes its airlines have acquired. There are even areas in China that have no radar. And if you have no navigational aids, you're in trouble."

Moreover, China lacks a national system of civilian air traffic control. Transferring aircraft from one flight information region to another as it is done in western countries simply does not exist.

Pilot training also lags behind the West. Modelled on the Soviet method, pilots are given instructions from air traffic control on the ground, and western diplomats said they are not trained to request permission to alter their original route – "if you are flying a plane in China, it goes through clouds and turbulence because the pilots don't have the training or leeway to deviate from the course ... so you end up with a rather bumpy ride."

The difficulties and dangers are compounded by an acute shortage of pilots. The country's only training school, run by the Civil Aviation Administration of China (CAAC) and located in Chengdu, Sichuan, turns out 80 pilots annually. Western businessmen estimate the country currently needs a total of at least 600 new pilots. Because of the pilot shortage, pilots fly longer hours than they should.

The drive to be profitable has also led to overloading aircraft with passengers and cargo, and to aircraft flying when they should be grounded for inspections and maintenance.

Since July last year, China has had five reported accidents, which killed 331 people. Even within the first two weeks of a 100-day safety campaign for the Chinese air force, two F-7 fighters collided, killing both pilots.

Given all of these safety problems, the Chinese are attempting to improve safety standards – "safety, safety, safety – the order has come from the top. The State Council has said safety is a first priority," a western businessman says.

In response to this pressure, the military has grudgingly agreed to release control of some of the air space to CAAC, but western diplomats say the armed forces have been slow to implement this policy.

Lynne Curry

New money culture

Below, and on the back page, writers examine China's growing township and village enterprises – led in many cases by rural workers who have found fresh incentives and new riches

Township and village enterprises discover new prosperity

There is no going back

As many as 19m rural enterprises have mushroomed in China over the past 15 years, reports ALEXANDER NICOLL

IN 1978, Mr Wang Zhou Long set up a small steel workshop outside De Yang, an industrial city in Sichuan province which already boasted some formidable state-owned steel plants.

Mr Wang was the village accountant. He had learned mathematics at primary school but otherwise had no formal education. He initially employed 27 people and had, he says, no money, no technicians and no equipment – "the idea was developed by all of us," Mr Wang says. "Everybody wanted to get rich."

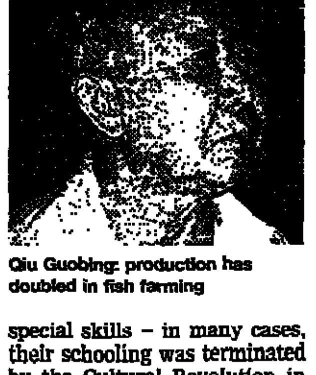
Today, De Yang Iron-Steel Plant is the tenth largest township enterprise in China. It has 3,100 staff – almost all of whom previously worked on the land – and earns a pre-tax profit of Yn80m for the eight townships which own it. Its products sell in 23 provinces as well as Thailand and Taiwan, competing with those of state-owned companies – on what had been farmland sprawls a rough-and-ready collection of furnaces and equipment churning out steel bars and pipes.

Mr Wang says he is not a rich man, earning only a salary. But he is a prominent figure in the community as the recently-elected town leader and a member of the National People's Congress.

He is ambitious for his company, having opened two new furnaces this year alone at a cost of Yn70m. With Yn40m still at his disposal for further expansion, "I can negotiate with anybody," he says. He is discussing the establishment of a $10m aluminium alloy factory with a Taiwan company.

This is just one of the estimated 19m rural enterprises which have mushroomed in China over the past 15 years. Conceived as a means to soak up the surplus of farm labour created by agricultural reform, they have become the most dynamic sector of the economy. The entrepreneurs who run them will have a lasting impact on Chinese life and business culture.

The new bosses are people with little or no education or special skills – in many cases, their schooling was terminated by the Cultural Revolution in the 1960s. They are people who instinctively spot market opportunities and exploit them. To an extent not known in Chinese business since the 1949 revolution, they must live on their wits. Many of them are already very rich.



Qiu Guobing: production has doubled in fish farming

Township and village enterprises account for about one-third of China's gross value of industrial output. They employ about a quarter of China's 430m rural workforce, account for about one-third of farm incomes, and are still growing rapidly.

By 1992, according to economists at the International Monetary Fund, they accounted for 25 per cent of China's exports, with textiles, clothing and arts and crafts products accounting for nearly half this figure.

Their activities range across the whole gamut of products and services where demand had not been satisfied by the lumbering central planning system – from car repairs to to shoes to vegetables.

Technically, the enterprises are collectives owned by townships and villages and may be quite closely supervised by town or village authorities. Many are, however, effectively in the private sector.

Rural enterprises operate under the advantages and disciplines of the marketplace. They have far greater flexibility than state-owned industry: they do not have to answer to a supervising bureaucracy; they can sell at market prices and set pay levels as they want; because their employees are already housed on the land, the enterprises have no "iron rice bowl" responsibilities to them; they enjoy tax concessions for their first several years and profit re-invested in expanding production is tax-free.

Wang Zhou Long – "I can negotiate with anybody"

The obverse side of this freedom is the absence of the protection enjoyed by state industries. Rural enterprises have no guaranteed market for their products. They have no access to soft loans. When the economy turns against them – as it did with government austerity measures from 1988 to 1991 – many go to the wall. This makes for efficiency but also for vulnerability.

In Xian Yang township near Chengdu, in Sichuan province, where 5,500 of the 15,000 population are employed by 34 township enterprises, the township arranged to inject equity into some of them when bank finance was temporarily cut off this summer because of central government moves to tighten credit.

Frustrated by their inability to predict the whims of Beijing, many rural industrialists are becoming involved in both local and national politics. Potentially, they represent a strong middle class political force. As the government seeks to revitalise sick state-owned enterprises which it has long protected, the businessmen who have come up the hard way will be increasingly sensitive to official favouritism towards state industry.

As they seek to develop, rural enterprises will face a number of problems. Many bosses complain that China's poor infrastructure hampers efficiency and increases costs.

The new culture of competitive, money-making business is to be found in unlikely places. Mr Qiu Guobing, 68 years old and a Communist Party member since 1952, has more than doubled the productivity of his fish farm, a village enterprise just outside Chongqing in Sichuan, since reforms began. He sells his fish by auction to the highest bidder, he runs training courses on fish farming techniques, and his biggest problem is theft.

He sees no going back to the starvation he witnessed in the 1970s – "the People's Commune was said to be a paradise. But it made people foolish. People were cheated," he says. "Socialism with Chinese characteristics is very suitable. Local markets everywhere are very prosperous. This way is leading to prosperity."

The rising money culture: FT correspondents discover the ingenuity of some of China's growing band of entrepreneurs

The new rich emerge

HEARD the one about the man from Sichuan who made a fortune out of nothing by buying used Russian aircraft in exchange for train-loads of Chinese consumer goods?

This true story is just one of many told in admiring tones to illustrate the helter-skelter of money. Ill-paid bureaucrats are goggle-eyed when they see the riches being made by China's new entrepreneurs. Suddenly, in the words of one, "money is flying in the air."

Here we offer some snapshots of the new culture of money from around China.

Mr Xue's herbal remedies

OUT of herbs which cost nothing except the labour needed to pick them, Mr Xue Yongxin has in seven years generated a company with annual turnover of Yn300m, *writes Alexander Nicoll.*

"In my opinion, it's only a starting point," says Mr Xue, who aims to quintuple the figure by 1996.

The company's main products are a lotion and tablets, made entirely from Chinese herbs, for the treatment of vaginal inflammation.

Mr Xue, 41, says he was previously an itinerant worker studying medicine, Taoism and architecture. He educated himself because his schooling was interrupted by the Cultural Revolution. In 1986, he founded Chengdu Enwei group, in which he holds 92 per cent. At the time, few people were willing to invest in a new company – "I was very adventurous to establish this enterprise," he says.

With annual pre-tax profit of Yn100m, Mr Xue is already a rich man – though he professes Taoist beliefs in harmony and helping society. "Money will do no good to the human body, unlike medicine," he says.

Boasting 46 group companies and 30 sales offices around China, as well as in Vietnam, Thailand, Russia and Japan, Mr Xue can see few obstacles to further exponential growth. He is applying to have his main products approved by the US Food and Drug Administration (as cosmetics, rather than drugs).

After finding that poor packaging limited his ability to export, Mr Xue is building a new packaging plant with imported equipment.

A man with marketing flair which has been rare in China, he is looking for cross-marketing agreements with foreign manufacturers of name-brand products. Mr Xue uses television and poster advertising in Chengdu, capital of Sichuan province, and is expanding sales throughout China although he is hampered by inadequate railways and roads, power supplies and telecommunications.

And, inevitably for a medicine company with an eye for massive growth, Chengdu Enwei has a cure for Aids as well as other fatal diseases including liver cancer. Its Qian Kun Ning herbal capsules, according to the company's literature, have "the effect of replenishing Qi to invigorate the spleen, promoting blood circulation, relieving flatulence, removing heat, detoxicating and enhancing the effect of the body's immunity." Chinese researchers are examining the claims.

Mr Mo's profitable pickles

THE IDEA is extraordinarily simple. But from a few sheds in Sichuan province, Mr Mo Goshun says he makes a profit of $1m per year, *writes Alexander Nicoll.*

His five-year-old enterprise in Xian Yang township cuts, salts and pickles vegetables, and sells them to Japan. Mr Mo himself spotted the market opportunity. Mushrooms which grow wild in the mountains of Sichuan sell for $250 a kilogram in Japan, he says. He claims that it costs him $400 to process one ton of mushrooms and that he sells them for $14,000 per ton.

Seeds for cabbages and other raw materials are imported from Japan, and the enterprise also processes onions, eggplant and other vegetables according to demand in Japan.

Mr Mo admits that he is already a rich man in Chinese terms – he expects to set up a co-operative agreement with a Japanese company, but says that "we do not need the money."

Stores report spending fever

"MY POCKETS are bulging with money," says Mr Fan-chunfu, a stallholder in Tianjin's biggest department store. He transports zip-up jackets from the southern provinces to Tianjin, sells around 40 of them a day, and makes Yn1,300 a month, *writes Bronwen Maddox.*

The store's four teeming floors in Tianjin's Hongqiao district, which open at six in the morning every day, are testimony to the spending fever gripping Chinese families. Customers elbow each other out of the way to try out the electronic games, cosmetics, and karaoke microphones.

Mr Ye Furong, the store's general manager, explains that the store has been set up as a market, with space rented to private stallholders, "because we [the store's founders] do not have enough experience in developing a market system. Our aim is to mobilise private businesses to do that."

Open for nearly two years, it now has more than 1,000 stallholders who supply their own goods and set their own prices. Trading volume is expected to reach Y300m this year.

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"These businesses work according to the law of the market," comments Mr Ye. "If it is cheap, lots of people will buy it."

The managers' embrace of market values is now so firm that when asked what makes a good businessman they give a textbook answer: good information; matching supply with customers' tastes; quick transport; good quality, and setting prices in line with quality.

Although the managers hotly reject the label of speculators, the enterprise also illustrates the kind of property deal of which Beijing officials have become wary. The cost of building the store, Yn30m, was financed by a loan from a local property company on a interest rate of 7.2 per cent a year, with part of the interest deferred.

The interest rate is lower than hotels and restaurants would pay "because this kind of project is encouraged by the state" says Mr Ye. "We are selling little goods that people need."

Yet, although they have paid back only a third of the loan, they now have an empty site earmarked for a second, bigger store, which they plan to finance with a second loan from another property company.

Questioned on whether they would earn more money as traders in their own store than as its managers, they roar with laughter, but the eventual answer is "yes." That response reflects one of the new tensions of China: officials and managers are increasingly confronted with the spectacle of poorly-educated entrepreneurs earning a fortune.

The stallholders themselves express no doubts about their new jobs. Mrs Han, 40, who runs a sock stall in the store, used to work in a Tianjin factory repairing machines – "twenty years ago I never would have dreamed I'd be doing this. The market system is good. Business is good."

New fashions catch on

AFTER ONLY three weeks of running a Japanese joint venture clothing store in Beijing, Mr Kinio Kawasato, is already fascinated by the mystery of conspicuous Chinese consumption, *writes Robert Thomson.*

"You look at the statistics on what people are supposed to be earning, then you see how much the customers are spending, and the figures don't add up," says Mr Kawasato, general manager of a venture by Taka-Q, famed for its contribution to Japan's post-war development by supplying the standard blue suit to salaried workers. He puts the willingness of Chinese customers to spend at least Yn1,200 and sometimes much more, on the lack of spending options – "people are not saving for a house or a car, and the taxes are not high," he says. "Food is relatively cheap, so people are using their money for clothes and entertainment."

Tapping into those relatively large urban incomes is the aim of the Taka-Q venture, though publicity in Japan has put the shop on the tourist map for visiting Japanese. While Mr Kawasato was explaining how he has encouraged good manners among the shop assistants, a tourist group was downstairs looking for Japanese quality at Chinese prices.

The store, near the main Beijing shopping street of Wangfujing, is a joint venture with Leimeng Garment, which ran a Mao suit store during the cultural revolution. As political fashions changed, Leimeng moved into western suits and, now, a foreign partnership in Italian-style suits, leather jackets and business shirts.

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Taka-Q Leimeng looks like one of the Japanese company's outlets in suburban Tokyo, but Mr Kawasato is still coaching the sales assistants in the Japanese arts of politeness. In many Chinese stores, change is often tossed back at customers by mute assistants for whom a sale is an unwelcome intrusion.

"We have trained the assistants to say, 'thank you very much, please come again,' as would be the case in Japan. I think the customers can feel a difference between this store and other Chinese stores, but our levels are still not high enough," he says.

Mr Kawasato has made the assistants more attentive to sales by giving them a relatively low base salary and introducing a commission system. But retraining the former Leimeng staff, accustomed to low-effort service, has been more difficult than coaching recently hired employees.

In Japan, stores such as Taka-Q often keep files on customers and run a discount card system for frequent buyers, but Chinese customers are reluctant to provide information for a personal file. Until now, only the Communist party, the police, and the State Security Bureau have kept personal files.

Taka-Q is supplying the store from its own joint venture factory near Beijing, which also exports garments to Japan. Among men, suits account for about half of the sales, while Chinese women are most influenced by fashion trends started in Hong Kong, Mr Kawasato says.

"The level of brand and quality awareness in China is even higher than that of some Japanese consumers. But the use of the suit is different in China," he says. "Men don't wear a suit to work, but they wear one on their day off, if they go out."

Taka-Q is planning a chain of Chinese stores, though opening dates are not fixed – "if we open more stores, the production costs will fall," he adds. "Before the war, the company had a store in Shanghai, so there is a historical reason for the interest in China."

Latest fashions for the new rich: a lady in Shanghai shops for silk dresses

Pictures by Cathryn Tremain, Bronwen Maddox and Alexander Nicoll

The bosses of the Tianjin department store which has four teeming floors in Hongqiao district – see report: stores report spending fever

Adventurous Mr Xue: herbal products have made him rich

FINANCIAL TIMES SURVEY

SWISS BANKING AND FINANCE

Thursday November 18 1993

The banking and insurance area of Place St François in Lausanne: smaller cantonal and regional banks are less resilient and the trend to painful consolidation in this area continues
Tony Andrews

Brisk activity on most fronts

Continuing recession is a dampening factor but a sharp upturn in its fortunes is persuading the sector that it still has a useful role to play in European finance, writes **Ian Rodger**

SWITZERLAND'S international financial services sector is enjoying an unexpected and vigorous revival.

It is not just the fact that the country's big universal and private banks are heading for bumper profits this year. Big banks and brokers everywhere have benefitted from buoyant securities and money markets in recent months.

And it is not just the fact that the brisk inflow of foreign investment capital is continuing, although the decision by the Swiss a year ago to eschew closer ties with the European Union has undoubtedly helped refresh the country's image as an independent safe haven.

More importantly, the financial scene has been energised by the recent removal of stifling restrictions on importing skilled professionals, the removal of some transaction taxes and improved education programmes.

A new sense of optimism is emerging that Finanzplatz Schweiz can after all retain a useful and profitable role in European finance in the face of increasingly stiff competition from London and other large centres.

While hundreds of clerical jobs are being lost as banks rationalise branch networks and streamline back office operations, many new high value ones are being created in the country's increasingly lively securities and derivatives markets.

Indeed, activity is so brisk that the Zurich Stock Exchange, whose leaders were in a state of high anxiety two years ago over the burgeoning trade in big Swiss equities in London, is planning to open a seventh trading ring next February, either for Swiss bonds or for foreign equities.

The derivatives markets, underdeveloped and flagging two years ago, have been helped by improved education programmes in Swiss universities and a more liberal government policy on granting work permits to highly skilled people.

Last year, the authorities would allow Credit Suisse Financial Products to bring in only two experts from its London base. Now, banks can bring in whoever they need. "Zurich is at the state of the art", says Mathis Cabiallavetta, Union Bank of Switzerland's director responsible for derivatives. "We feel we can do anything here that could be done in New York or London, and we are regaining ground."

The one dampening element in this revival is that the Swiss economy is in a dreary state, having suffered three years of mild recession and some economists believe even a weak recovery is still some months away.

Thus, while securities and international financial business are booming, the domestic commercial banking scene is in a dismal state. Three years of slumping property markets, sluggish sales for industrial companies and falling tourism activity have left banks with an unprecedented level of bad debts.

The big universal banks can and will absorb record provisions for bad loans this year without breaking stride, but the smaller cantonal and regional banks are not so resilient and the trend to painful consolidation in these sectors continues.

The number of regional banks, for example, has tumbled from 190 to 150 in the past two years, and Mr Roland Boeschenstein, deputy director of the Association of Regional Banks, says the process, which has slowed so far this year, is likely to accelerate again when bank directors take stock at year end.

Ironically, the biggest single consolidation seen to date, the takeover by Credit Suisse of Swiss Volksbank early this year for SFr1.6bn, (£740m) appears to have intensified the competitive struggle, at least for the time being. At a stroke, this acquisition catapulted Credit Suisse from a weak third position in most domestic markets to a neck and neck battle with UBS for leadership.

Both UBS and Swiss Bank Corporation – the latter now an embarrassed number three in most markets – have responded by stepping up their marketing efforts, undoubtedly in the hope of picking off disaffected customers from Credit Suisse or Volksbank. Others have had no choice but to follow. "We thought that after everyone took a bath in the mortgage market in the past two years, a risk premium would appear this year, but no way," says Mr Josef Ackermann, the new chief executive of Credit Suisse.

One immediate consequence is that the big banks are, if anything, accelerating their cost-cutting programmes, including eliminating jobs.

This has gone down badly with the general public. Many people cannot understand how the banks can be so insensitive at a time when they are making record profits and when unemployment is already soaring because of lay-offs by hard pressed industrial companies. But the banks, if slightly uncomfortable with this criticism, are unrepentant. "It would be totally wrong to finance the weak, domestic side from our trading profits from elsewhere," says Mr Ackermann. "We would be heavily and rightly criticised three years from now if we did not act."

The private banks, too, are having a banner year. Most of these banks, which specialise in managing private fortunes and, to an increasing extent, institutional portfolios, are themselves private and do not publish their financial results.

But Baer Holding, one of the largest, reported that its consolidated net income more than doubled in the first half to SFr71m, with the volume of clients' assets up 17 per cent to SFr38.7bn and trading income more than doubling to SFr114m.

This sparkling performance has helped rebuild confidence that this sector, the heart of the Swiss financial centre, can remain internationally competitive. Estimates put the value of foreigners' funds in the country at more than SFr1,000bn, a third of all offshore investment.

That may be a big drop in market share from the near monopoly that Swiss bankers had early in the century in this high margin field, but "the miracle", says one private banker, "is that we have held on to as much as we have".

"Our market share is an advantage," says Mr Hans-Dieter Vontobel, chief executive of the eponymous private banking group in Zurich. "It enables us to do things that someone starting from zero cannot do." Mr Vontobel published a book two years ago expressing concern about the future of the Swiss financial centre, and in particular about the commitment of the big universal banks to it. At the time, the big banks seemed to be moving many activities – especially in the securities field – to London.

Today, he confesses to having become "rather optimistic". He points in particular to the development of the national electronic stock exchange, due to be completed late next year after two false starts in the late 1980s. That development, with the removal of some transaction taxes and aggressive cost-cutting, makes operating in Switzerland look much more attractive.

"The big banks realise that we are now able to be low cost producers. London outmanoeuvred Switzerland and others in the 1980s, but it has its problems now. I cannot comment on the outcome of the war, but the next battle could go to the continent and to Switzerland," Mr Vontobel says.

■ ECONOMY

Little to celebrate

THERE is not much joy in the Swiss economy these days, but neither its current state nor its prospects appear to be as bad as many have feared.

The country is coming to the end of the third year of a recession that has been unpleasant, but mercifully shallow. According to recently upwardly revised figures, real gross domestic product was in fact stagnant in 1991 and contracted by only 0.1 per cent last year. It is expected to fall 0.7 per cent this year.

The slump was initially self-imposed, as inflation shot up to more than 6 per cent in 1990, forcing the Swiss National Bank to tighten monetary policy just as other stimuli were showing signs of flagging.

The effect of the squeeze was felt first on private sector investment. It contracted 2.5 per cent in 1991 and 5 per cent last year, leaving the construction industry, property markets and many machinery sectors in considerable difficulty.

On the other hand, exports, which account for more than a third of GDP, held up remarkably well, growing 3.4 per cent last year. But they have sagged this year as the German economy has slumped.

By far the most damaging aspect of this recession has been its impact on jobs. The unemployment rate has shot up from less than 1 per cent in 1990 to 4.5 per cent, with a record 170,000 people now out of work. Economists agree that this will worsen next year.

High unemployment has had a strong impact on other elements in the economy. Soaring spending for welfare benefits has been the main contributor to the government's record breaking deficits in the past two years.

Economists also suspect that unemployment is behind the nervousness that has sent private consumption plunging much more deeply than in previous recessions. Consumption was off 0.2 per cent last year, and tumbled 2.5 per cent and 1.2 per cent in the first and second quarters of this year respectively.

There is an uncommon unanimity among analysts that the economy is at last bottoming out, but no one expects it to recover quickly next year. Among the leading forecasters, the Lausanne-based Crea Institute for Applied Macroeconomics and Zurich-based Centre for Research of Economic Activity (KOF) are the most optimistic, expecting GDP growth of 1.7 per cent and 1.5 per cent respectively. Bank Julius Baer is at the bottom of the range, seeing only a 0.9 per cent growth.

Whatever the outcome, no one expects that growth will be strong enough to reduce unemployment.

Inflation, on the other hand, has been largely wrung out of the system. The central bank expects it will drop to under two per cent by the middle of next year compared with the September rate of 3.4 per cent.

High unemployment has had a strong impact on other elements in the economy

The differences in the forecasts seem mainly to reflect differing views on the outlook for exports. The Swiss National Bank seems to side with Baer.

Mr Georg Rich, director and chief economist, says he is sceptical of the optimistic forecasts of German recovery recently published by the German institutes. The recovery, he says, is more likely to be led by private consumption, as people gradually lose their nervousness about unemployment.

The more interesting question is the state in which Swiss industry will emerge from the recession. It has taken a beating in the past two years. A September survey of 200 industrial firms by Union Bank of Switzerland found that average capacity usage had dropped to 81 per cent and two thirds of the companies employed fewer people than a year ago. Only 4 per cent expected orders to rise in the fourth quarter.

Moreover, there has been much moaning in Swiss industrial circles about the difficulties exporters now face. One obstacle is the strong Swiss franc, bolstered by large inflows of haven-seeking capital in the past year and supported by a fairly rigorous monetary policy.

The central bank, having been burnt once in the late 1980s, is hesitant to stimulate the economy beyond its medium term target of one per cent growth in the monetary base.

In the first half of 1992, the bank was much criticised for maintaining a tight grip. But since then, it has regained credibility, taking advantage of rises in the franc which have been caused by capital inflows to reduce interest rates unilaterally.

The spread between German and Swiss short-term interest rates is still over 150 basis points and the franc remains strong, but the bank seems in no hurry to provide further unilateral relief.

The more worrying problem for exporters is the possibility of discrimination in European markets as a result of Switzerland's decision last year to remain outside the European Economic Area (EEA).

Mr Rich and others believe that Swiss industrial companies have made great strides during the recession to improve their competitiveness. This is shown by the fact that corporate profits have remained at respectable levels.

Thus, they should be able to absorb the marginal extra costs of border formalities that their European Union competitors will no longer face. But discriminatory acts, especially covert ones, would be difficult to counter.

Mr Kurt Schiltknecht, managing director of BZ Trust in Zurich, a fund management firm, is especially optimistic. "People are underestimating the progress our companies have made," he says.

"Of course there will be some unpleasant surprises in Europe, but that is a challenge to produce better products. Swiss companies should not be in businesses where a sale depends on a 2 or 3 per cent margin."

Mr Schiltknecht also points out that Swiss companies have already had some important benefits from being outside the EEA, notably the lower interest rates made possible by the large capital inflows.

Ian Rodger

The market is flourishing but beware of competitors, says **John Gapper**

Private factor is potent attraction

THE mood among Swiss private bankers these days is a mixture of gratification and apprehension. They are gratified because asset management for wealthy individuals is now a flourishing market in spite of decades of scepticism about its future. They are apprehensive because the boom has brought with it competition from unlikely sources, including retail banks in Europe and America.

The strength of competition has raised questions over whether Swiss banks, and in particular the small privately-capitalised Geneva banks, will continue to exert their dominance over offshore private funds of $2,100bn.

The alternative is that they will be squeezed out by other centres, and by large institutions which attempt to offer similar services from bases in Switzerland.

Chase Manhattan estimates that 35 per cent of private client funds are managed from Switzerland. The near-monopoly of Swiss private banks in the inter-war period has been gradually eroded. But the country's political and financial stability, traditional expertise and banking secrecy remain potent attractions, in spite of strong competition from Luxembourg and London.

"Knowing others think this is an interesting sector is a reassuring confirmation that we were right in decades when people said it was not that important," says Mr Thierry Lombard, one of six partners of Geneva-based Lombard, Odier & Cie.

Competition has intensified as banks have looked at private banking as a commission-earning activity with lower capital risks than lending.

"It is a fee-earning business with relatively good margins, and the bulk of it is off-balance sheet, so you can achieve a good return on capital," says Mr Jean Pierre Cuoni, chief executive of Coutts & Co AG, the international private banking arm of National Westminster Bank.

Banks are also encouraged by the potential growth of wealthy individuals in emerging markets in Asia and Latin America.

Banks that already manage assets and provide capital markets services to large corporate clients and institutional funds, can offer similar services to rich individuals at relatively low marginal cost.

Mr Georges Vergnion, chairman of Chase Manhattan Private Bank in Geneva, says that Chase's derivatives expertise and technology is one example of a transferable resource.

International banks, such as Chase and National Westminster, are unconcerned about Switzerland's future as a private banking centre.

Maintaining competitive advantage requires a delicate balancing act

"Switzerland is a booking centre, a product, for us," says Mr Cuoni. "I am not worried if people say other centres are coming up. We are there too."

The fortunes of Swiss private banks are more intertwined with the country's competitive advantage.

Yet maintaining that advantage requires a delicate balancing act. The private banks must be large and expert enough to provide clients with the enormous range of modern financial products and capital instruments. Yet, they must maintain the small-scale, personalised service that allows them to command private client fees big enough to offset larger competitors' economies of scale.

Mr Hans Bär, chairman of Bank Julius Bär in Zurich, says that the primary emphasis must be on individuals. "The margins are slim on asset management and global custodianship. It is the private client who pays the bill," he says. Mr Lombard agrees. "We may sell part of our expertise outside, but the bulk of our research must be devoted to our clients," he says.

This principle is more easily enunciated than achieved. The Swiss banks need to boost private client assets with institutional funds: 45 per cent of Lombard, Odier's assets under management, are institutional. This gives them an incentive to concentrate on fund rather than portfolio management, devoting research to overall asset allocation instead of selecting individual mixes for clients.

This tendency has been reinforced by the growth in mutual funds from the US, which offers individuals the chance to diversify risk and to spread investments around different markets.

Private banks increasingly act as intermediaries between their clients and such funds, sometimes making markets in investment fund holding to allow private clients to swap among them easily.

Mr Bär says that private clients have become preoccupied by fund performance. "It is less and less them asking: 'Is this a good bank?' People ask about the funds now," he says.

This could mean that private banking will become a "commoditised" business, with margins falling as a growing number of competitors are able to offer fund management expertise similar to the established participants.

Nor is it simple to decide which form of institutional business banks should seek.

Surveys have found that clients still value the traditions of service

Some are now having to choose between offering large corporations asset management services, or becoming global custodians that manage securities portfolios.

Calculating which option is more profitable in the long term is "a difficult call", according to Mr Patrick Odier, a partner of Lombard, Odier.

Mr Vergnion argues that such trends favour big banks which can allow their private banking arms to draw on the expertise of other specialist activities, such as institutional fund management and capital markets.

"We have already seen some of the smaller banks merging. Those that cannot invest in people and technology are going to be squeezed out," he says.

Mr Vergnion believes that international banks with a presence in Switzerland have an edge in attracting new clients because much of the emerging wealth is among entrepreneurs in Asia and Latin America.

Chase says that it is gaining market share, although its 31 per cent growth in assets under management, so far this year, includes money entrusted to it by independent advisers.

The Swiss banks remain a competitive force. Surveys have found that clients still value their traditions of service highly and are prepared to pay a premium for it. The suspicion that private banking is merely the latest fad for some of their competitors also helps.

They have specialised in client asset management for so long that their names and addresses alone are an advertisement.

"We are willing to render service in the very long term, and we devote our capital to our clients' needs. That is important," says Mr Odier.

Yet in a world where the average retail investor can buy equity options or take a stake in Venezuelan equities through a mutual fund, the Swiss banks must work increasingly hard to demonstrate that their expertise remains a unique asset.

John Gapper explains why cost-cutting follows record bank profits

Spectacular returns bring big three the risk of protest

THE international boom in securities underwriting and derivatives trading has created record profits for Switzerland's three biggest banks - but the achievement could not have come at a more awkward time. As they cut costs in the competitive domestic retail market, the banks now risk political and consumer protest.

The success of Union Bank of Switzerland, CS Holding, and Swiss Bank Corporation in diversifying into profitable forms of international business was rewarded spectacularly in the first half. Post-tax profits increased by 33 per cent, with trading income double that in the first half of 1992.

This gave them a respectable 13 per cent return on capital, despite domestic returns of between 5 and 6 per cent. The three have suffered from low returns in the past because they have high ratios of equity to assets. They have maintained their solidity at the expense of short-term returns.

But concerns over the sustainability of trading revenue and risks associated with derivatives mean that each is trying to improve long-term profitability. This involves restructuring of domestic operations and some highly cautious provisioning against bad debts to provide a cushion for the future.

"The trading side is volatile and makes us vulnerable," says Mr Josef Ackermann, chief executive of CS Holding's Credit Suisse. "The things which will remain with us are cuts in costs and a high level of provisions." Mr Ackermann says the big three must be cautious because the Swiss economic outlook is uncertain.

The domestic market is characterised by high levels of competition and slim interest margins

The Swiss domestic market is characterised by high levels of competition and slim interest margins. Swiss banks also went through a period in the 1980s when they offered a large and expensive range of products to personal customers, and kept large networks of indistinguishable branches.

The banks face political problems in improving net interest margins from the current level of 1.4 per cent. They have been unable to match the rise in mortgage margins achieved in other countries because of public antagonism. Customers are also astute at not leaving interest-free deposits.

This means that attention has focused on cost-cutting and simplifying products. Mr Robert Studer, chief executive of UBS, says: "In the 1980s all the banks introduced products of a sophistication that the customer did not want or understand, and certainly was not prepared to pay for."

Cost-cutting has been given impetus by the acquisition of the fourth largest bank – Swiss Volksbank – by what was the third largest by asset size, CS Holding. It is estimated by Lehman Brothers, the investment bank, that cost-cutting could improve domestic operating profits by 15 per cent by 1995.

But the CS/Volksbank deal has also reinforced the banks' contest for size. Mr George Blum, chief executive of Swiss Bank Corporation, says his domestic priority is to increase market share by measures that include buying small banks, and using unspecified new distribution channels.

Mr Blum emphasises that SBC will do all it can this year to make bad debt provisions high enough to ensure a profits gain from falling provisions over the next few. "It is best for them to be as high as possible in the special circumstances of this year to give us a totally safe base," he says.

The challenges in international operations are different. The banks have gained by not making similar mistakes to those of US and European banks which expanded into loss-making retail overseas operation in the 1980s. Instead, they have concentrated on more profitable corporate and securities businesses.

The banks have gained from their derivatives strength as currency and interest rate volatility have drawn huge demand from corporate customers for risk management services. SBC's derivatives liabilities and credit substitutes alone rose by about a third last year from SFr1,017bn to SFr1,544bn.

While the banks' strong capital is likely to help them keep their market share, concerns focus on narrowing of margins and trading risk. Mr Ackermann says that "derivatives are here to stay", but adds that he expects margins to narrow for plain derivative products over the next few years.

But the banks are optimistic that they can sustain international profits by expanding in securities and banking markets where they are underdeveloped. "If we can expand our infrastructure, we can get stable income from markets where we've had a limited role," says Mr Ackermann.

External pressures could mount to focus on higher earning businesses so as to raise total returns

The biggest strategic question facing the banks is whether they can maintain their approach of valuing capital strength at least as highly as return on equity. With US banks achieving returns on common equity of 15 to 20 per cent on strengthened capital, pressures may mount.

In one sense, the world is moving in the direction of the big three. There is a growing international emphasis on strong capital ratios in businesses such as securities underwriting and derivatives. The Basle accord on minimum capital ratios has also encouraged banks to meet Swiss standards.

Nonetheless, Switzerland is not immune from shareholder activism, with UBS already facing a legal challenge from BK Vision, the investments company which holds a 15 per cent stake. There could be external pressures to concentrate on higher earning businesses to raise overall returns.

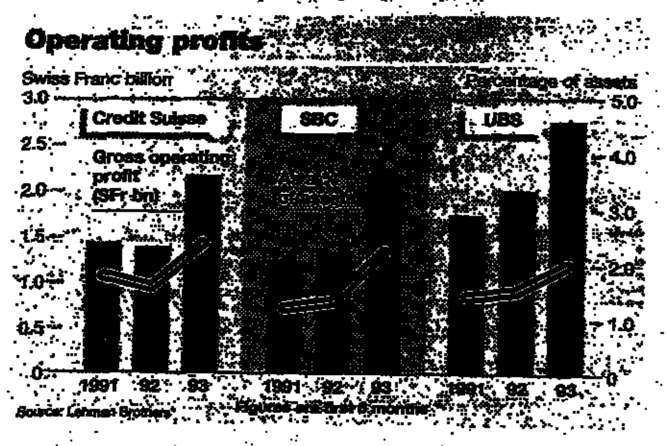
Mr Blum says that if SBC can produce returns above [illegible] per cent in future he will be "very happy", but he does not regard it as the sole target. "If we cannot, then so be it. What is the alternative? To reduce our capital would be [illegible] because that is the basis of confidence in the bank," he says.

Mr Studer says that it would be wrong to depend too strongly on short-term equity returns. It must sustain types of activity which contribute to overall profits. "We are an ocean steamer not a small boat on a lake, and you cannot expect to move us as quickly as a small boat," he says.

Market share

Source: Lehman Brothers

Operating profits



■ THE STOCK EXCHANGE

Electronic trading approaches reality

THE Swiss stock exchanges finally seem to be near to the introduction of electronic trading. Mr Dieter Sigrist, secretary of the new Swiss Stock Exchange, says the current project for developing an electronic system is on schedule to be introduced in the spring of 1995. "Both on the technical side and on the political side, we are on track," Mr Sigrist said.

This is a considerable achievement, considering the rough ride that Swiss banks and brokers have had in this area over the past few years.

Plans for an electronic exchange in Switzerland were first outlined in the mid-1980s. At the time, seven bourses were operating in the country but intensifying competition from other European exchanges made the need to concentrate activity more pressing.

However, given the strength of regional sentiment, it was unlikely that the others would willingly cede the field to the Zurich Börse, by far the largest of the Swiss exchanges.

The creation of an electronic exchange provided an elegant way of avoiding loss of face as physical location would be irrelevant to such an exchange.

Two attempts to create such a system were made in the 1980s, the more ambitious was designed by Andersen Consulting. But in late 1991, the project was suddenly scrapped. By then four of the seven exchanges had closed, leaving only Zurich, Geneva and Basle.

Moreover, business was depressed and fixed commissions had just been abolished, leaving brokers uncertain about their future income. Many thought the Andersen project, which some said could cost more than SFr100m by the time it was installed, was extravagant.

Andersen and the stock exchanges are still in court arguing over the consultants' fees, which are expected to be between SFr20m and SFr40m.

To their credit, the exchanges went back to work to design a more modest system, and agreed on a plan that would be based on one developed for Australia's stock exchanges.

Ironically, the Australian system had been based on one developed for the Swiss Options and Financial Futures Exchange (Soffex) in the early 1980s.

The development budget is SFr80m and Mr Sigrist says about half of it has been spent to date. The system will handle trading and connect to the Swiss Clearing Corporation (SEGA) and the Swiss Interbank Clearing system (SIC) for processing settlements.

In preparation for the launch of the electronic exchange, a number of organisational changes have taken place or are foreseen.

First, a legal association called Swiss Stock Exchange (SSE) was established in May this year to take over responsibility for completing the exchange from the Association of Tripartite Bourses. It will also operate the exchange.

Initially, only members of the three existing stock exchanges are SSE members and, for legal reasons, this is likely to prevail for the initial years of operation.

Direct membership will become possible as soon as one of the three founding exchanges ceases operations, but that will only happen when the relevant canton agrees to give up its collection of taxes on securities transactions.

Traders on the Zurich Börse: physical location would be irrelevant to an electronic exchange

SSE has already taken over responsibility for trading regulations and listings from the Association of Swiss Exchanges, which has been dissolved.

Soffex, hitherto owned by the big banks and other exchange members, became a wholly owned subsidiary of SSE last month. One result of this move was that Soffex last summer dropped its plans for co-operating with other European futures exchanges. Instead, it will wait and develop an external policy together with the stock exchange.

Another consequence is that the Soffex computer system will be transferred to a new computer complex that will be set up for the Swiss exchange.

Meanwhile a new federal stock exchange law is being prepared to replace existing cantonal ones. It will probably not become fully effective until near the end of the decade and so the existing stock exchange entities and, more important, tax systems will remain in effect even after the electronic exchange has started to operate.

For competitive reasons, the SSE wants to change from the cantonal volume-based tax to transaction ones, but Mr Sigrist does not see this happening until 1997 or later.

The new federal law will probably leave most regulatory and surveillance matters to the SSE, at least at the initial stages, with final responsibility falling on the Federal Banking Commission.

For example, a suspicion of insider trading would prompt the SSE to carry out an investigation and, if it was suspicious of wrongdoing, it would pass the case on to the commission.

It has not yet been decided whether the SSE will build up its own surveillance staff or whether it will call upon companies' external auditors to carry out initial investigations.

Mr Sigrist doubts that a big staff will be necessary because few cases will arise. He points out that there are only 55 members. The electronic exchange will collect data not only on the brokers carrying out transactions but also on whether deals are done for customers or for the broker's own account.

The pace of implementation of electronic trading may seem painfully slow, but Mr Sigrist makes no apology. "We have learned by spending a lot of money doing the wrong thing," he says.

Ian Rodger

Higher yield bond issues may lure retail investors, says **John Gapper**

Back to traditional values

THE SWISS bond market has enjoyed a second year of recovery, helped by falling interest rates and the unusual emergence of a substantial public sector deficit. The big three – Union Bank of Switzerland, CS Holding and Swiss Bank Corporation – now dominate the lead managing of issues even more than in the days of the bond syndicate cartel. They expect another six months of strong primary activity, but are uncertain what will follow.

Some traditional characteristics of the bond market have reappeared, following an exotic period in the 1980s which saw an outbreak of equity-linked Japanese issues and swapped deals by borrowers without triple and double A ratings. Although volume in the first nine months of 1993 equalled that of the whole of last year, there has been a renewed emphasis on simplicity and quality.

The unanswered question is whether Swiss retail investors, who buy most foreign issues, will be drawn into higher yielding bonds when interest rates fall further.

"Our investors are very conservative. I imagine that we may see some change when we have very low rates, and they start to accept higher risk," says Mr Jean-Luc de Buman, a first vice-president of Union Bank of Switzerland.

"Investors will look for higher risk again eventually. That will give people like us the chance to bring new names or structured deals to the market," says Mr Jules Keller, of SG Warburg Securities in Geneva.

But that time has not yet arrived. SFr10.9bn of foreign straight issues up to November 4, were rated AAA, while SFr8.5bn were AA, SFr1.9bn were A and only SFr450m were lower than A.

In addition, the fall in interest rates this year – government bond yields have dropped from about 5.6 per cent to 4.2 per cent – has not yet turned the yield curve positive. This has limited the scope for foreign borrowers to tap the market through swapped issues. Only a third of foreign straight issues so far in the second half have been swapped, compared with as much as 75 per cent at times in the 1980s.

Nonetheless, domestic and foreign markets have been active. The foreign market has been helped by liberalisation, including the abolition of stamp duty and by the end of the requirement for banks participating in syndicates to be domiciled in Switzerland. The fall in interest rates has helped the Swiss market to join in the worldwide trend towards refinancing of corporate debt and capital raising.

Most banks expect a floor in yields to be reached in the middle of 1994

This activity has been matched by the domestic sector, which issued SFr29.3bn of bonds in the first 10 months compared with SFr33.5bn in foreign issues. The biggest innovations have also occurred in the domestic market, including synthetic option bonds lead managed by Swiss Bank Corporation, offering options on Zurich Insurance equity in the case of a SFr154m issue for the City of Zurich.

Despite market liberalisation, the dominance of the big three banks has, if anything, strengthened since the Cartel Commission insisted on an end to the agreement by which business was shared out among Swiss institutions. Their share of lead management of foreign issues in the first 10 months was 72 per cent, with only Nomura Bank (Switzerland) achieving more than 5 per cent among the rest.

This is largely because of their immense placing power with Swiss retail investors, which allows them to operate profitably in a market where underwriting fees are virtually given away in issue pricing. Allegations that the big three also gain by being able to "stuff" their investors' portfolios have largely disappeared as competition among them has stiffened following the end of the cartel.

"If someone says the Swiss are not opening up their market, I say: 'What can you contribute? What can you offer?'," says Mr Hans Rudolf Zehnder, the head of syndicate and primary sales at Credit Suisse. He argues that the big three banks have "a unique situation" in the Swiss market because it is dominated by retail investors that only they can reach through their investment networks.

Opinions vary on whether the big three have also been helped in to gaining market share by the rise in volume this year. Some competitors say that their placing power allows them to take the risk of mispricing an issue without becoming over-stretched. But others acknowledge that the fall in interest rates has reduced the obstacles to competitors with less placing power clearing an issue.

Whichever is true, the big three's dominance of underwriting raises the question of whether they will sustain losses next year as short-term rates reach a floor and they face difficulties in distributing the whole of the most aggressively priced issues.

Most banks expect a floor in yields to be reached in the middle of 1994. When it happens, primary activity may subside, although the emergence of a mildly positive yield curve is likely to sustain investment in medium-term and long bonds and improve conditions for swapped issues. Banks are also preparing for a structural shift towards higher yielding bonds.

It is not only banks outside the big three that want to encourage this. Mr de Buman of UBS says the market must protect itself against a slackening of supply by persuading investors to consider issues outside the higher investment grade "religion".

But the big three know that the wider the spread of issuers, the more competition they will face from other lead managers. One of their strongest protections against losing market share is their expertise in derivatives, which has already allowed them to structure innovative domestic issues, and will be helpful if greater interest in swapped foreign issues emerges next year.

■ DERIVATIVES

Volume hits new highs

WITH interest rates cut by half in the past year and share prices up 40 per cent, it is hardly surprising that Swiss franc derivatives markets have been booming in recent months.

The Swiss Options and Financial Futures Exchange (Soffex) hit an all-time high volume on October 15, with 151,231 options contracts traded, and by the end of October, volume traded had surpassed last year's 15.1m futures and options traded.

In the listed options market, trading volume is now more than SFr200m a day, and OZ Zurich Options and Futures, one of the most active specialists in this market, has just reported that its net income doubled in the first nine months to SFr21.5m.

Over the counter volume has more than doubled too, according to Swiss Bank Corporation, the leading designer of tailor-made option packages. "We have had a perfect environment," an SBC derivatives specialist, said.

Market participants have noticed a significant deepening of the markets, with not just the big Swiss banks, but also US investment banks, such as Merrill Lynch and Goldman Sachs becoming more highly active.

One consequence of the buoyant conditions is that the competitive tensions among the three elements of the Swiss derivatives scene appear to have relaxed, with increasing recognition in the various camps that there is a role for everyone.

It has also been a year of innovations. Since April, the top 50 warrants in the listed market have been traded continuously, and the list is adjusted weekly.

Continued on page 4

■ PUBLIC FINANCE

Alarm bells ring

SWISS governments, normally models of fiscal rectitude – even to the point that the government bond market until recently was chronically dull – have recently found things going badly wrong.

In 1990, the aggregate deficit of all three levels of government was a piffling SFr1.9bn, or about half of 1 per cent of gross domestic product. This year it will exceed SFr11bn and government leaders are starting to ring the alarm bells.

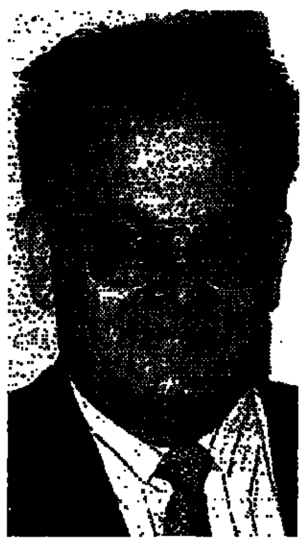
The main cause of the soaring deficits is the high level of unemployment which has forced governments to sharply increase their welfare payments. In previous recessions, unemployment tended to stay relatively low as guest workers went home, women retreated from the labour market and many men were too embarrassed to register for the dole.

Ashamed of their treatment of guest workers, the Swiss authorities have eased the conditions under which they could obtain permanent visas. The result is that few have gone home during the current recession, and the unemployment rolls have swelled from a few thousand in 1990 to 170,000 today.

If that were the end of the story, everyone would attribute the bloated deficit to cyclical factors and not worry too much about it. But simultaneously a structural deterioration in public finance has also occurred.

According to Mr Otto Stich, the federal finance minister, only half of this year's federal deficit, which is now expected to exceed SFr7bn – more than double the initial estimate – is attributable to the recession.

"Even after the economy recovers, the deficits will



Otto Stich: 'deficits to remain high'

remain high," he complained at a recent press conference. The problem has been one common to governments everywhere, with politicians approving popular spending programmes without checking to see if the funds are available.

The federal government undertook a round of belt

The main cause of soaring deficits is high unemployment

tightening last year. It is also counting heavily on public support in a referendum on November 28 to boost revenue by introducing a modest but universal 6.5 per cent value added tax to replace a more selective turnover tax.

But even with these measures, Mr Stich warned that the prospect for the next few years was for total public sector deficits in the order of 4 per cent of GDP and the net public sector debt hovering around 40 per cent of GDP.

While these ratios are still relatively modest by international standards, Mr Stich, a socialist, raised the awful spectres of the government's credit rating being questioned and its financing requirements crowding out more worthy private sector borrowers.

The former may be plausible, but the latter is most unlikely given the extraordinary size of Swiss capital markets. Certainly, the government's large current demands have not prevented long-term interest rates from falling to close to four per cent, and no one apart from Mr Stich seems worried about a reversal of the trend.

In any event, the federal government is now embarking on another cost-cutting programme, this time focused on some of the more sensitive items in the budget, including transfers to the cantonal governments and the indexation of public servants' salaries.

The cantonal governments are now expected to put pressure on the communes, but they will point out that some 70 per cent of their spending is determined by cantonal laws.

Mr Stich claimed the new proposals would reduce the annual deficit by SFr1.5bn by 1997 and by SFr2bn in the longer term.

With this kind of zeal being displayed so early in the descent into excessive debt, it seems unlikely that Switzerland will ever become a concern of the International Monetary Fund. But the last word, as always in this country, will be with the voters.

Ian Rodger

Better recognition of portfolio management is the aim of a newly-established institute

In need of the professional touch

SWISS banks are estimated to manage about half the world's international portfolio business and European institutions, as a whole, a good deal more. Yet, unlike their American counterparts, Europe's financial circles have been slow to recognise portfolio management and financial analysis as a profession in its own right requiring special skills and qualifications.

Most of those now tending other people's money – in banks, pension funds, insurance companies or asset management institutions – have learned what they know on the job.

Mr Thierry Lombard, a partner in the private bank of Lombard Odier, and his colleagues in the Fondation Place Financière in Geneva hope to change all that. In September this year the FPF and the Paris-based European Federation of Financial Analysts' Societies (EFFAS) set up the European Institute for Financial Analysis and Portfolio Management, with the aim of promoting high professional standards and qualifications throughout Europe, stimulating research and encouraging the exchange of ideas between the profession and academia.

"The European investment business needs competent professionals," says Mr Lombard, adding that creation of the institute "should lead to more efficient and safer investments". He would like to see something equivalent to the American diploma of Chartered Financial Analyst, widely held in the US and increasingly exported around the world.

Mr Lombard, who chairs the FPF, set up two years ago by the Geneva stock exchange to promote Geneva as a financial centre, also hopes that establishment of the institute will strengthen the city's reputation as an international centre for asset management. This forms part of the FPF strategy to find a distinctive role for Geneva when the open-outcry exchange shuts down in 1995 to be replaced by a nationwide electronic bourse system.

The institute will co-ordinate training and act as a catalyst for new initiatives

The city is now home to some 200 financial companies employing 20,000 people, including most of Switzerland's private banks.

The institute itself will not train students, but will co-ordinate current efforts and act as a catalyst for new initiatives. Among its first priorities is the establishment of a network of experts to aid EFFAS in designing and improving European-wide standards and qualifications, including the exchange of teaching and examination materials. The institute also plans itself to develop specialised training courses, refresher courses and seminars on new financial developments, such as new derivatives products or the latest portfolio management techniques.

In addition, the institute will sponsor publications and conferences, and support exchanges of ideas and information, including the translation of publications for broader distribution. (EFFAS' member societies use 12 different languages.) It has already initiated work on a comprehensive guide for portfolio managers on taxation of investments throughout Europe, which it hopes to publish early next year.

One of its most important tasks, says Mr Lombard, will be to improve exchanges between theorists and practitioners, for instance to harness recent academic work on portfolio theory to develop advanced asset management techniques.

"If we managed only to halve the gap between academic research and professional techniques, that would be a very high achievement," he says.

For the time being, the institute is staffed by one part-time director, Mr Philippe Sormani, and a full-time assistant. The work will be done mostly by members of the institute's founding organisations, the FPF and EFFAS, or by outside professionals and academics. The FPF has given the institute a cash primer of SFr1.3m, apart from which its activities are required to be broadly self-supporting.

Training of European financial analysts and portfolio managers has already made rapid progress over the past few years under the auspices of EFFAS, which has member societies in 17 European countries covering 10,000 professionals. In 1986 EFFAS established a training and qualification committee to lay down qualification standards that could be recognised across Europe. In 1990 it set up an accreditation board to certify the national courses being offered.

The emphasis has been on post-graduate training leading to an advanced diploma qualification. Switzerland and Britain were the first to be accredited by EFFAS; they have since been followed by the Netherlands, France, Norway and Austria between them turning out about 500 newly qualified students a year.

Mr Lombard thinks it will soon be standard practice to require qualifications for new entrants to portfolio management, and to enrol existing staff on refresher courses.

"Given the speed at which financial activities are evolving, financial professionals – like doctors – need to master the new developments in new products or new market regulations", he says. Companies will see a competitive advantage in better qualified staff.

At the same time, he does not believe more universal qualifications will make competition any less intense.

"There is a world of difference between acquiring the basic language and knowing how to use it skilfully", he says. "But you need the first to learn the second."

Frances Williams

■ PROFILE: BZ

Narrow focus a winner

FOR most of its astonishingly successful eight-year life, the BZ investment banking group in Zurich has kept a low profile. Mr Martin Ebner, the driving force behind the group, has preferred to concentrate on leading his tiny band of traders and analysts to pile up profits for clients and, of course, for the bank itself.

So far it has been a winning formula, with the bank showing a net income of SFr59.5m ($41.90m) last year and Mr Ebner, a former equities analyst at Bank J Vontobel, appearing regularly in the lists of the wealthiest Swiss. The group's strategy has been to focus its attention narrowly. It has only a dozen main institutional clients, it follows closely only about 30 Swiss shares, and it issues and trades warrants in even fewer of them.

It scored an early success in 1987, issuing covered warrants on registered shares of Swiss companies. At the time, foreign investors were not allowed to buy these but most reckoned prohibition would soon end. This happened, but the warrants are still popular among some investors for their tax efficiency.

As it has grown, BZ has diversified into fund management, but again has focused narrowly. In 1991, it took over Pharma Vision 2000, a sleepy investment trust with holdings in pharmaceutical and chemical shares. It pared Pharma Vision's holdings down so that its SFr2.4bn portfolio is now made up of securities of only three Swiss companies: Roche, Ciba and EMS-Chemie. In the same year, it formed a similar trust, BK Vision, for banking shares, and roughly two-thirds of its SFr2bn portfolio is in Union Bank of Switzerland shares and options. BK is by far the largest single shareholder of UBS, Switzerland's biggest bank, with a 15 per cent stake.

In both cases, the trusts were able to achieve large scale status quickly because BZ institutional clients were willing to put their holdings into them in return for Vision shares.

By late last year, the BZ group had reached a size at which it was increasingly difficult to keep a low profile, especially as three of its vehicles, the two Visions and its derivatives subsidiary, OZ in Zurich Options and Futures, were quoted. Moreover, Mr Ebner began to fulfil his commitment that the Visions would be active shareholders, trying to influence the management of companies in which they had holdings.

In December, BK Vision indicated publicly that it was unhappy with a UBS board decision not to renominate Mr Christoph Blocher, a controversial industrialist-politician, to its ranks. This was a delicate case as Mr Blocher, the chairman of EMS-Chemie and of Pharma Vision, was clearly a BZ ally. Yet the UBS move looked like spite against Mr Blocher's isolationist politics. In the end, BZ pulled its punch; but UBS lost face.

BZ's claim to fame is its ability to raise and make huge amounts of money

In June, BK Vision returned to the attack, filing a legal suit against the creation by UBS of shares that could be used to make acquisitions without prior approval by shareholders.

This time, it struck a responsive chord in Swiss financial circles, where it was widely felt that UBS had stretched the meaning of recent company law reforms beyond a reasonable limit. UBS responded constructively, saying it welcomed the opportunity to clarify the law. For its part, Pharma Vision has begun to grumble about the lacklustre performance at Ciba.

But BZ's main claim to fame is still its ability to raise and make huge amounts of money. So far this year, BK Vision has raised SFr220m and Pharma Vision SFr310m in rights issues. A third investment trust, Gas Vision, to specialise in shares of industrial gas companies, was launched in August raising SFr500m.

Meanwhile, BZ Trust, a group offshoot which manages the Visions, has made astronomical commissions from them. BZ uses a formula that provides for no commission unless the Vision shares grow more than 6 per cent, but then for sharply rising fees. In the first half of this year, it earned SFr140.4m from Pharma Vision and SFr132.7m from BK Vision.

Mr Ebner's latest enthusiasm is for company share buy-backs. He says it is better to distribute excess capital than venture into risky diversifications. He started working on the techniques two years ago when looking for tax efficient ways for EMS-Chemie to pay dividends. One was to pay back a portion of the nominal share capital, which Ems did last year in lieu of paying a dividend.

This year, EMS took a bigger step, buying back and cancelling 36 per cent of its bearer shares, distributing SFr550m back to shareholders. Société Générale de Surveillance, the cash-rich Geneva based inspection group, followed with a similar programme to distribute SFr216m, but said it had not been advised by BZ.

BZ recently announced that its OZ subsidiary would launch a buy-back programme via partial redemption of its nominal capital worth at least SFr18m.

BZ officials have begun floating the idea that mighty UBS should join the trend, although they recognise that in the case of a bank, a delicate balance must be struck between maintaining sufficient capital and producing good returns on it.

The time has long since passed when sceptics could say that the BZ group was a meteor that would quickly burn itself out. But equally, it remains to be seen if it can continue to spin gigantic profits for itself and its clients out of financial engineering on a small number of securities.

Ian Rodger

Volume hits new highs

Continued from page 3

Mr Balz Merkli, managing director of OZ, says the change has encouraged the big issuers to trade their warrants on the stock exchange rather than privately in the hope of joining the elite 50.

In the OTC market, SBC raised eyebrows by introducing products linking syndicated bonds with equity derivatives.

In October, for example, it led a SFr154m bond issue for the city of Zurich that was coupled with warrants for Zurich Insurance shares, leading some to wonder if the city was backing the insurance company or vice versa.

"The point is that you can sell these packages even to very conservative funds," an SBC official said.

At Soffex, the most welcome change was a 20 per cent average reduction in commissions early in April.

The exchange, which celebrated its fifth anniversary in June, has continued to adjust its product offerings. Notably it withdrew an interest rate future on a synthetic bond when federal government borrowings became large enough to support a real bond future. The so-called CONF future, launched in June, 1992, has become a solid performer with roughly SFr700m open interest, and an option on it is to be launched next year.

Soffex is also planning to introduce long-term share options within the next few months.

Mr Otto Nägeli, chief executive, says he is thinking in terms of two to three year contracts on the six top Swiss shares and the SMI index.

Mr Nägeli acknowledges that this move is not universally supported by Soffex members at the moment, and that it would put Soffex to an extent in competition with listed options on the stock exchanges.

"It is partially stepping into the quoted warrant area," he said. But he argues that it would open up to medium sized members the possibility of making writing long term options, a business that is now restricted to the strongest banks.

"But Soffex cannot compete with its members. If they do not want it, it won't happen," he said.

Ian Rodger